COVER SHEET

6030

SEC Registration Number

SECURITY BANK CORPORATION

(Company's Full Name)

SBC Centre 6776 Ayala Avenue Makati City

(Business Address: No. Street City/Town/Province)

Joselito E. Mape

(Contact Person)

867-6788

(Company Telephone Number)

0 9	3 0
Month	*Day*

(Fiscal Year)

17-Q

(Form Type)

Month *Day*

(Annual Meeting)

(Secondary License Type, If Applicable)

CFD

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

1,837

Total No. of Stockholders

Domestic Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

Remarks: Please use BLACK ink for scanning purposes.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended **September 30, 2015**

2. Commission identification number **6030** 3. BIR Tax Identification No. **000-498-020**

4. Exact name of issuer as specified in its charter - **SECURITY BANK CORPORATION**

....

5. Province, country or other jurisdiction of incorporation or organization - **Philippines**

6. Industry Classification Code: [ ] (SEC Use Only)

7. **6776 Security Bank Centre, Ayala Avenue, Makati City** **0719**
   Address of issuer's principal office Postal Code

8. **(632) 867-67-88**
   Issuer's telephone number, including area code

9. **Not applicable**
   Former name, former address and former fiscal year, if changed since last report

10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Title of each Class	Number of shares of common stock outstanding and amount of debt outstanding
Common Shares (PhP 10 par)	**Total: 602,831,109 shares**
Preferred Shares (PhP 0.10 par) (Unregistered)	**Total: 602,831,109 shares**

....
....

11. Are any or all of the securities listed on a Stock Exchange?

    Yes [√] No [ ]

    Preferred Shares are not listed

    If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

    Philippine Stock Exchange **Common Stock**

12. Check whether the registrant:

    (a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)

    Yes [√] No [ ]

    (b) has been subject to such filing requirements for the past ninety (90) days.

    Yes [√] No [ ]

PART 1 - FINANCIAL INFORMATION

Item 1. Financial Statements.

Attached are the following:

Unaudited Interim Statements of Financial Position	- Annex "1"
Unaudited Interim Statements of Income	- Annex "2"
Unaudited Interim Statements of Comprehensive Income	- Annex "3"
Unaudited Interim Statements of Changes in Equity	- Annex "4"
Unaudited Interim Statements of Cash Flows	- Annex "5"
Notes to Unaudited Interim Condensed Financial Statements	- Annex "6"
Aging of Loans and Receivables	- Annex "7"
Aging of Accounts Receivable	- Annex "8"
Financial Soundness Indicators	- Annex "9"

Item 2. Management's Discussion and Analysis of Financial Position and Statement of Income - Annex "10"

PART 11 – OTHER INFORMATION

There are no material disclosures that have not been reported under SEC Form 17C during the period covered by this report.

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

JOSELITO E. MAPE
Chief Financial Officer

Date: Oct 26, 2015

Annex 1

SECURITY BANK CORPORATION AND SUBSIDIARIES
UNAUDITED INTERIM STATEMENTS OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 2015
(With Comparative Audited Figures as of December 31, 2014)

	September 30, 2015 (Unaudited)	December 31, 2014 (Audited)
	(Amounts in Thousands)	
ASSETS		
Cash and Other Cash Items	**₱4,477,004**	₱5,619,751
Due from Bangko Sentral ng Pilipinas	**34,688,390**	35,843,596
Due from Other Banks	**31,466,204**	39,129,595
Financial Assets at Fair Value through Profit or Loss (Note 7)	**6,191,109**	10,921,822
Financial Assets at Fair Value through Other Comprehensive Income	**155,893**	150,780
Investment Securities at Amortized Cost (Note 8)	**176,473,996**	101,484,843
Loans and Receivables	**216,914,977**	194,004,086
Investment in a Joint Venture	**212,102**	197,352
Property and Equipment	**2,590,216**	2,423,158
Investment Properties	**1,797,686**	1,780,886
Deferred Tax Assets	**977,740**	1,000,169
Goodwill (Note 3)	**841,602**	841,602
Intangible Assets	**1,538,078**	1,499,910
Other Assets	**3,854,391**	2,300,784
TOTAL ASSETS	**₱482,179,388**	₱397,198,334

LIABILITIES AND EQUITY		
LIABILITIES		
Deposit Liabilities		
Demand	**₱72,165,857**	₱63,120,095
Savings	**127,920,998**	116,285,207
Time	**65,023,142**	57,455,062
Long-term Negotiable Certificates of Deposit (Note 9)	**9,959,752**	9,952,430
	275,069,749	246,812,794
Financial Liabilities at Fair Value through Profit or Loss	**1,378,524**	582,867
Derivative Liabilities Designated as Hedges	**22,775**	58,288
Bills Payable and Securities Sold Under Repurchase Agreements	**116,355,692**	79,601,534
Acceptances Payable	**319,094**	294,373
Margin Deposits and Cash Letters of Credit	**165,860**	32,972
Manager's and Certified Checks Outstanding	**3,284,502**	2,156,837
Income Tax Payable	**63,237**	47,014
Notes Payable (Note 10)	**13,964,330**	–
Subordinated Note (Note 11)	**9,937,542**	9,933,491
Accrued Interest, Taxes and Other Expenses	**2,357,476**	2,139,285
Other Liabilities	**5,794,902**	7,581,840
TOTAL LIABILITIES	**428,713,683**	349,241,295
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY		
Capital stock (Note 12)	**6,088,594**	6,088,594
Additional paid-in capital (Note 12)	**3,210,200**	3,210,200
Surplus reserves	**469,972**	487,771
Surplus	**42,431,420**	36,951,697
Net unrealized gain on financial assets at fair value through other comprehensive income	**43,210**	41,930
Net unrealized gain on subsidiaries' financial assets at fair value through other comprehensive income	**28,443**	24,851
Cumulative foreign currency translation	**98,217**	76,246
	52,370,056	46,881,289
NON-CONTROLLING INTEREST	**1,095,649**	1,075,750
TOTAL EQUITY	**53,465,705**	47,957,039
TOTAL LIABILITIES AND EQUITY	**₱482,179,388**	₱397,198,334

See accompanying Notes to Unaudited Interim Condensed Financial Statements

SECURITY BANK CORPORATION AND SUBSIDIARIES
UNAUDITED INTERIM STATEMENTS OF INCOME

	Quarter Ended September 30		Nine Months Ended September 30	
	2015	2014	**2015**	2014
	(Amounts in Thousands)			
INTEREST INCOME ON				
Loans and receivables	**₱2,838,167**	₱2,375,319	**₱8,026,384**	₱6,792,562
Financial investments	**1,933,273**	1,318,425	**5,295,123**	4,486,235
Interbank loans receivable and securities purchased under resale agreements with the Bangko Sentral ng Pilipinas	**1,867**	50,188	**7,659**	116,970
Deposits with banks and others	**14,680**	21,314	**41,296**	71,950
	4,787,987	3,765,246	**13,370,462**	11,467,717
INTEREST EXPENSE ON				
Deposit liabilities (Note 9)	**818,746**	642,954	**2,342,144**	1,799,554
Derivative instruments	**233,947**	200,022	**682,274**	560,738
Subordinated note, notes payable, bills payable and securities sold under repurchase agreements and other borrowings (Note 11)	**491,945**	256,939	**1,277,312**	610,597
Derivatives designated as hedges	**4,919**	11,339	**20,491**	37,470
	1,549,557	1,111,254	**4,322,221**	3,008,359
NET INTEREST INCOME	**3,238,430**	2,653,992	**9,048,241**	8,459,358
Gain on disposal of investment securities at amortized cost (Note 8)	**–**	1,945,905	**2,067,016**	3,067,627
Service charges, fees and commissions	**774,347**	306,442	**1,621,472**	1,071,039
Trading and securities gain (loss) - net	**(80,187)**	(52,281)	**825,333**	483,965
Foreign exchange gain (loss) - net	**(10,804)**	75,903	**189,313**	(17,535)
Profit from assets sold/exchanged	**22,722**	67,842	**102,223**	119,105
Rent	**43,188**	34,798	**130,643**	102,805
Share in net income of a joint venture	**5,596**	4,872	**14,750**	17,836
Miscellaneous	**114,196**	93,494	**343,452**	243,628
TOTAL OPERATING INCOME	**4,107,488**	5,130,967	**14,342,443**	13,547,828
OPERATING EXPENSES				
Compensation and fringe benefits	**774,535**	687,639	**2,330,071**	1,933,437
Provision for credit losses	**207,223**	84,335	**599,071**	784,335
Taxes and licenses	**215,913**	190,312	**1,007,644**	737,926
Occupancy costs	**202,494**	188,109	**592,348**	526,852
Depreciation and amortization	**162,506**	132,173	**444,905**	371,191
Amortization of software costs	**12,587**	17,351	**38,905**	43,657
Provision for (recovery from) impairment losses	–	(4,769)	**101**	(16,589)
Miscellaneous	**815,584**	763,665	**2,552,590**	2,101,180
TOTAL OPERATING EXPENSES	**2,390,842**	2,058,815	**7,565,635**	6,481,989
INCOME BEFORE INCOME TAX	**1,716,646**	3,072,152	**6,776,808**	7,065,839
PROVISION FOR INCOME TAX	**296,451**	240,196	**676,064**	594,403
NET INCOME	**₱1,420,195**	₱2,831,956	**₱6,100,744**	₱6,471,436
ATTRIBUTABLE TO:				
Equity holders of the Parent Company	**₱1,400,235**	₱2,814,364	**₱6,057,404**	₱6,428,498
Non-controlling interest	**19,960**	17,592	**43,340**	42,938
NET INCOME	**₱1,420,195**	₱2,831,956	**₱6,100,744**	₱6,471,436
Weighted average number of outstanding common shares*	**602,831,109**	602,831,109	**602,831,109**	602,831,109
Basic/Diluted Earnings Per Share* (Note 15)	**₱2.32**	₱4.67	**₱10.04**	₱10.66

*In absolute amounts

See accompanying Notes to Unaudited Interim Condensed Financial Statements

SECURITY BANK CORPORATION AND SUBSIDIARIES
UNAUDITED INTERIM STATEMENTS OF COMPREHENSIVE INCOME

	Quarter Ended September 30		Nine Months Ended September 30	
	2015	2014	**2015**	2014
	(Amounts in Thousands)			
NET INCOME FOR THE PERIOD	**₱1,420,195**	₱2,831,956	**₱6,100,744**	₱6,471,436
OTHER COMPREHENSIVE INCOME (LOSS)				
Other Comprehensive Income to be Reclassified to Profit or Loss in Subsequent Periods:				
Cumulative translation adjustments	**71,408**	107,748	**21,971**	40,378
Other Comprehensive Income Not to be Reclassified to Profit or Loss in Subsequent Periods:				
Remeasurement gain on defined benefit plan	**–**	–	**9,748**	–
Net unrealized gain (loss) on financial assets at fair value through other comprehensive income, net of tax	**(1,006)**	1,797	**4,885**	(54)
OTHER COMPREHENSIVE INCOME FOR THE YEAR	**70,402**	109,545	**36,604**	40,324
TOTAL COMPREHENSIVE INCOME	**₱1,490,597**	₱2,941,501	**₱6,137,348**	₱6,511,760
ATTRIBUTABLE TO:				
Equity holders of the Parent Company	**₱1,470,637**	₱2,923,913	**₱6,093,949**	₱6,468,831
Non-controlling interest	**19,960**	17,588	**43,399**	42,929
NET INCOME	**₱1,490,597**	₱2,941,501	**₱6,137,348**	₱6,511,760

See accompanying Notes to Unaudited Interim Condensed Financial Statements

Annex 4

SECURITY BANK CORPORATION AND SUBSIDIARIES
UNAUDITED INTERIM STATEMENTS OF CHANGES IN EQUITY

For the Periods Ended September 30, 2015 and 2014

	Equity Attributable to Equity Holders of the Parent Company										
	Capital Stock (Note 12)	**Stock Dividends Distributable** (Note 12)	**Additional Paid-In Capital**	**Surplus Reserves**	**Surplus**	**Net Unrealized Gain on Financial Assets at Fair Value through Other Comprehensive Income**	**Net Unrealized Gain on a Subsidiary's Financial Assets at Fair Value through Other Comprehensive Income**	**Cumulative Foreign Currency Translation**	**Total**	**Non-controlling Interest**	**Total Equity**
					(Amounts in Thousands)						
Balance at January 1, 2015	**₱6,088,594**	**₱–**	**₱3,210,200**	**₱487,771**	**₱36,951,697**	**₱41,930**	**₱24,851**	**₱76,246**	**₱46,881,289**	**₱1,075,750**	**₱47,957,039**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**6,067,106**	**1,280**	**3,592**	**21,971**	**6,093,949**	**43,399**	**6,137,348**
Transfer to surplus	**–**	**–**	**–**	**(17,799)**	**17,799**	**–**	**–**	**–**	**–**	**–**	**–**
Payment of cash dividend (Note 12)	**–**	**–**	**–**	**–**	**(605,182)**	**–**	**–**	**–**	**(605,182)**	**(23,500)**	**(628,682)**
Balance at September 30, 2015	**₱6,088,594**	**₱–**	**₱3,210,200**	**₱469,972**	**₱42,431,420**	**₱43,210**	**₱28,443**	**₱98,217**	**₱52,370,056**	**₱1,095,649**	**₱53,465,705**
Balance at January 1, 2014	₱5,023,585	₱1,004,717	₱3,210,200	₱395,690	₱31,011,930	₱35,420	₱24,594	₱49,675	₱40,755,811	₱1,019,172	₱41,774,983
Total comprehensive income for the period	–	–	–	–	6,428,498	2,405	(2,450)	40,378	6,468,831	42,929	6,511,760
Issuance of preferred shares	60,283	–	–	–	–	–	–	–	60,283	–	60,283
Payment of cash dividend	–	–	–	–	(1,205,662)	–	–	–	(1,205,662)	–	(1,205,662)
Payment of stock dividends	1,004,726	(1,004,717)	–	–	(9)	–	–	–	–	–	–
Transfers to surplus reserve	–	–	–	60,283	(60,283)	–	–	–	–	–	–
Balance at September 30, 2014	₱6,088,594	₱–	₱3,210,200	₱455,973	₱36,174,474	₱37,825	₱22,144	₱90,053	₱46,079,263	₱1,062,101	₱47,141,364

See accompanying Notes to Unaudited Interim Condensed Financial Statements

SECURITY BANK CORPORATION AND SUBSIDIARIES
UNAUDITD INTERIM STATEMENTS OF CASH FLOWS

	For the Period Ended September 30	
	2015	2014
	(Amounts in Thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱6,776,808**	₱7,065,839
Adjustments for:		
Provision for credit losses	**599,071**	784,335
Depreciation and amortization	**444,905**	371,191
Amortization of software costs	**38,905**	43,657
Amortization of transaction costs on long-term negotiable certificates of deposit (Note 9)	**7,322**	6,919
Amortization of transaction costs on subordinated notes (Note 11)	**4,051**	1,169
Amortization of transaction costs on notes payable (Note 10)	**6,971**	–
Provision for (recovery of) impairment losses	**101**	(16,589)
Profit from assets sold/exchanged	**(102,223)**	(119,105)
Share in net income of a joint venture	**(14,750)**	(17,836)
Unrealized market valuation loss (gain) on financial instruments at fair value through profit or loss (FVTPL)	**(356,257)**	(485,360)
Gain on disposal of financial assets at amortized cost (Note 8)	**(2,067,016)**	(3,067,627)
Changes in operating assets and liabilities:		
Decrease (increase) in the amounts of:		
Loans and receivables	**(23,690,976)**	(16,965,608)
Financial assets at FVTPL	**5,847,114**	(7,855,132)
Other assets	**(1,497,891)**	(227,622)
Increase (decrease) in the amounts of:		
Deposit liabilities	**28,249,631**	25,741,677
Manager's and certified checks outstanding	**1,127,665**	326,454
Accrued interest, taxes and other expenses	**218,191**	258,263
Margin deposits and cash letters of credit	**132,888**	78,749
Acceptances payable	**24,721**	(8,046)
Other liabilities	**(1,814,311)**	171,985
Net cash provided by operations	**13,934,920**	6,087,313
Income taxes paid	**(637,412)**	(692,007)
Net cash provided by operating activities	**13,297,508**	5,395,306
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Investment securities at amortized cost	**(111,950,121)**	(61,197,837)
Financial assets at fair value through other comprehensive income	**(228)**	–
Property and equipment	**(645,324)**	(741,522)
Intangible assets	**(77,073)**	(242,754)
Proceeds from:		
Disposal of investment securities at amortized cost (Note 8)	**39,027,983**	68,535,088
Disposal of investment properties	**168,994**	110,430
Disposal of property and equipment	**84,737**	47,973
Net cash provided by (used in) investing activities	**(73,391,032)**	6,511,378

(Forward)

	For the Period Ended September 30	
	2015	2014
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from bills payable and securities sold under repurchase agreements	**₱4,849,955,385**	₱3,297,039,000
Settlements of bills payable and securities sold under repurchase agreements	**(4,813,201,227)**	(3,321,019,732)
Proceeds from issuance of notes payable	**13,166,023**	–
Proceeds from issuance of subordinated debt	–	9,931,008
Proceeds from issuance of preferred shares	–	60,283
Cash dividends paid (Note 12)	**(601,307)**	(601,792)
Net cash provided by (used in) financing activities	**49,318,874**	(14,591,233)
Effect of change in foreign exchange rates	**813,306**	40,378
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(9,961,344)**	(2,644,171)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		
Cash and other cash items	**5,619,751**	4,428,863
Due from Bangko Sentral ng Pilipinas	**35,843,596**	45,583,991
Due from other banks	**39,129,595**	28,739,381
Interbank loans receivable and securities purchased under resale agreements (SPURA) with the Bangko Sentral ng Pilipinas	**–**	12,120,000
	80,592,942	90,872,235
CASH AND CASH EQUIVALENTS AT END OF PERIOD		
Cash and other cash items	**4,477,004**	3,817,548
Due from BSP	**34,688,390**	31,937,802
Due from other banks	**31,466,204**	44,472,714
Interbank loans receivable and SPURA with the Bangko Sentral ng Pilipinas	**–**	8,000,000
	₱70,631,598	₱88,228,064
OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS		
Interest received	**₱13,088,261**	₱11,661,258
Interest paid	**4,257,412**	2,853,220
Dividends received	**170,536**	15,670

See accompanying Notes to Unaudited Interim Condensed Financial Statements

SECURITY BANK CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS

1. Corporate Information

Security Bank Corporation (the Parent Company) is a domestic corporation registered with the Securities and Exchange Commission (SEC) in 1951 and was listed in the Philippine Stock Exchange (PSE) in 1995. The Parent Company's head office is located at 6776 Ayala Avenue, Makati City.

The Parent Company was incorporated on May 8, 1951 and started its operations as a commercial bank on June 18, 1951. On May 30, 2000, the Board of Directors (BOD) of the Parent Company approved its Amended Articles of Incorporation to extend the corporate term of the Parent Company, which expired on May 8, 2001, for another 50 years. On February 19, 2001, the SEC approved such amendment.

In 1994, it was approved by the Bangko Sentral ng Pilipinas (BSP) to operate as a universal bank, allowing it to expand its financial services and revenue sources.

The Parent Company provides expanded commercial banking services such as deposit products, loans and trade finance, domestic and foreign fund transfers, treasury, foreign exchange and trust services. In addition, the Parent Company is licensed to engage in financial derivatives to service the requirements of its customers and as a means of reducing and managing the Parent Company's foreign exchange and interest rate exposures.

The Parent Company's subsidiaries, which are all incorporated in the Philippines, are engaged in the following businesses:

Subsidiaries	Effective Percentage of Ownership	Line of Business
SB Capital Investment Corporation (SBCIC)	100.00	Investment house
SB Equities, Inc. (SBEI)	100.00	Stock brokerage
SB International Services, Inc. (SISI) (preoperating stage)	100.00	Marketing services
SB Rental (SBRC)*	100.00	Rental/leasing
SB Cards Corporation (SBCC)	100.00	Credit card operations
Landlink Property Investments (SPV-AMC), Inc. (LPII) (preoperating stage)	100.00	Asset management
SB Forex, Incorporated (SBFI) (suspended operation)	100.00	Foreign exchange services
Security Bank Savings Corporation (SBS) (formerly Premiere Development Bank) (see Note 3)	99.54	Thrift bank
Security Land Corporation (SLC)	51.81	Real estate

**On December 23, 2013, the Board of Directors of SBCIC approved the incorporation of SBRC, which was registered with SEC on January 13, 2014.*

The Parent Company is the Ultimate Parent Company of the Group.

In 2014, the Parent Company entered into a distribution agreement with FWD Life Insurance Corporation (FWD) for the marketing of the FWD's life insurance products through the Parent Company's marketing and distribution network. The distribution agreement was approved by the BSP on December 22, 2014 under Monetary Board Resolution No. 2073, through its letter to the Parent Company dated January 7, 2015, and the Insurance Commission on January 12, 2015. In addition, a voting trust agreement executed by FWD took effect upon BSP approval of the distribution agreement where the Parent Company can exercise 10% voting rights at any of its shareholders meeting.

Security-Philam Financial Solutions and Insurance Agency, Inc. (SPFSIAI), a joint-venture entity, has suspended its operations beginning 2005. On April 2, 2008, its corporate term was shortened to until August 31, 2009. Starting August 31, 2009, assets and liabilities of SPFSIAI were presented at the lower of cost or net realizable value. As of December 31, 2014, assets of ₱0.2 million and liabilities of ₱2.1 million are included in the consolidated amounts in the statements of financial position. In August 12, 2015, the Bureau of Internal Revenue (BIR) approved the liquidation of SPFSIAI.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying interim condensed financial statements include the financial statements of the Parent Company and its subsidiaries.

The accompanying interim condensed financial statements have been prepared on a historical cost basis except for financial assets and financial liabilities at fair value through profit or loss (FVTPL), financial assets at fair value through other comprehensive income (FVTOCI) and derivative liabilities designated as hedges that have been measured at fair value. The carrying values of recognized loans and receivables that are hedged items in fair value hedges, and otherwise carried at amortized cost, are adjusted to record changes in fair value attributable to the risks that are being hedged. The financial statements are presented in Philippine peso and all values are rounded to the nearest thousand peso (₱000) except when otherwise indicated.

The financial statements of the Parent Company and SBS include the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU). The functional currency of the RBU and the FCDU is the Philippine peso and United States dollar (USD), respectively. For financial reporting purposes, FCDU accounts and foreign currency-denominated accounts in the RBU are translated into their equivalents in Philippine peso, which is the Parent Company's presentation currency. The financial statements individually prepared for these units are combined after eliminating inter-unit accounts.

Each entity in the Group determines its own functional currency and the items included in the financial statements of each entity are measured using that functional currency. The functional currency of each of the Parent Company's subsidiaries is the Philippine peso.

Explanatory Comments about the Seasonality or Cyclicality of Interim Operations

Seasonality or cyclicality of interim operations is not applicable to the Group's type of business.

Statement of Compliance

The accompanying interim condensed financial statements as of and for the six months ended September 30, 2015 have been prepared in compliance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*. Accordingly, the interim condensed financial statements do not include all of the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as of and for the year ended December 31, 2014.

Basis of Consolidation

The consolidated financial statements of the Group are prepared for the same reporting period as the subsidiaries, using consistent accounting policies.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies used in line with those used by the Group. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- derecognizes the carrying amount of any non-controlling interests;
- derecognizes the cumulative translation differences recorded in equity;
- recognizes the fair value of the consideration received;
- recognizes the fair value of any investment retained;
- recognizes any surplus or deficit in profit or loss; and
- reclassifies the Parent Company's share of components previously recognized in OCI to profit or loss or surplus, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

Non-controlling Interest

Non-controlling interest represents the portion of profit or loss and net assets not owned, directly or indirectly, by the Parent Company.

Non-controlling interests are presented separately in the consolidated statement of income, consolidated statement of comprehensive income, and within equity in the consolidated statement of financial position, separately from equity attributable to the Parent Company. Any losses applicable to the non-controlling interests are allocated against the interests of the non-controlling interest even if this results in the non-controlling interest having a deficit balance. Acquisitions of non-controlling interests that do not result in a loss of control are accounted for as equity transactions, whereby the difference between the consideration and the fair value of the share of the net assets acquired is recognized as an equity transaction and attributed to the owners of the Parent Company.

Changes in Accounting Policies

Except for the following standards and amended PFRS which were adopted as of January 1, 2015, the accounting policies and methods of computation adopted in the preparation of the financial statements are consistent with those followed in the previous financial year. Unless otherwise indicated, these new and revised accounting standards have no impact to the Group.

PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions* (Amendments)

PAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. It is not expected that this amendment would be relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

Annual Improvements to PFRS (2010-2012 cycle)

The Annual Improvements to PFRS (2010-2012 cycle) are effective for annual periods beginning on or after January 1, 2015 and are not expected to have a material impact on the Group, unless otherwise stated. They include:

PFRS 2, *Share-based Payment - Definition of Vesting Condition*

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition
- A performance target must be met while the counterparty is rendering service
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
- A performance condition may be a market or non-market condition
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*

The amendment is applied prospectively for business combinations for which the acquisition date is on or after July 1, 2014. It clarifies that a contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PAS 39, *Financial Instruments: Recognition and Measurement* (or PFRS 9, *Financial Instruments*, if early adopted). The Group shall consider this amendment for future business combinations.

PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgments made by management in applying the aggregation criteria in the standard, including a brief description of operating segments that have been aggregated and the

economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.

- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization*
The amendment is applied retrospectively and clarifies in PAS 16 and PAS 38 that the asset may be revalued by reference to the observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.

PAS 24, *Related Party Disclosures - Key Management Personnel*
The amendment is applied retrospectively and clarifies that a management entity, which is an entity that provides key management personnel services, is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual Improvements to PFRS (2011-2013 cycle)
The Annual Improvements to PFRS (2011-2013 cycle) are effective for annual periods beginning on or after January 1, 2015 and are not expected to have a material impact on the Group, unless otherwise stated. They include:

PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements*
The amendment is applied prospectively and clarifies the following regarding the scope exceptions within PFRS 3:

- Joint arrangements, not just joint ventures, are outside the scope of PFRS 3.
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

PFRS 13, *Fair Value Measurement - Portfolio Exception*
The amendment is applied prospectively and clarifies that the portfolio exception in PFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of PAS 39 (or PFRS 9, as applicable).

PAS 40, *Investment Property*
The amendment is applied prospectively and clarifies that PFRS 3, and not the description of ancillary services in PAS 40, is used to determine if the transaction is the purchase of an asset or business combination. The description of ancillary services in PAS 40 only differentiates between investment property and owner-occupied property (i.e., property, plant and equipment).

<u>Future Changes in Accounting Policies</u>
Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt these standards when they become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on the financial statements.

<u>Effective in 2016</u>
PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization* (Amendments)
The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted.

PAS 16, *Property, Plant and Equipment*, and PAS 41, *Agriculture - Bearer Plants* (Amendments)
The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, will apply. The amendments are retrospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted.

PAS 27, *Separate Financial Statements - Equity Method in Separate Financial Statements* (Amendments)
The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of PFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to PFRS. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted.

PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
These amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

PFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations* (Amendments)
The amendments to PFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted.

PFRS 14, *Regulatory Deferral Accounts*
PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. PFRS 14 is effective for annual periods beginning on or after January 1, 2016. Since the Group is an existing PFRS preparer, this standard would not apply.

Annual Improvements to PFRS (2012-2014 cycle)
The Annual Improvements to PFRS (2012-2014 cycle) are effective for annual periods beginning on or after January 1, 2016 and are not expected to have a material impact on the Group, unless otherwise stated. They include:

PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal*
The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

PFRS 7, *Financial Instruments: Disclosures - Servicing Contracts*
PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance in PFRS 7 in order to assess whether the disclosures are required.

The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.

PFRS 7 - *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.

PAS 19, *Employee Benefits - Regional Market Issue regarding Discount Rate*
This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

PAS 34, *Interim Financial Reporting - Disclosure of Information 'Elsewhere in the Interim Financial Report'*
The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

<u>Effective in 2018</u>
PFRS 9, *Financial Instruments - Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39 (2013 version)*
PFRS 9 (2013 version) already includes the third phase of the project to replace PAS 39 which pertains to hedge accounting. This version of PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a derivative instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

PFRS 9 (2013 version) has no mandatory effective date. The mandatory effective date of January 1, 2018 was eventually set when the final version of PFRS 9 was adopted by the FRSC. The adoption of the final version of PFRS 9, however, is still for approval by BOA.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets but will have no impact on the classification and measurement of the Group's financial liabilities. The adoption will also have an effect on the Group's application of hedge accounting. The Group is currently assessing the impact of adopting this standard.

PFRS 9, *Financial Instruments* (2014 or final version)
In July 2014, the final version of PFRS 9, *Financial Instruments*, was issued. PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of PFRS 9 is permitted if the date of initial application is before February 1, 2015.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Group's financial liabilities. The adoption will also have an effect on the Group's application of hedge accounting. The Group will quantify this effect to present a comprehensive picture of the impact of adoption on the financial position or performance of the Group.

IFRS 15, *Revenue from Contracts with Customers*
IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.

<u>Mandatory Date Yet to be Determined</u>
Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on

construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts,* or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

3. Goodwill

Impairment testing of goodwill
Goodwill acquired through business combination has been allocated to SBS as the cash generating unit (CGU). As of September 30, 2015 and December 31, 2014, the carrying amount of goodwill amounted to ₱841.6 million.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. No impairment loss was recognized for the period ended September 30, 2015 and in 2014. The last impairment test was carried out as of December 31, 2014.

The recoverable amount of SBS has been determined based on a VIU calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. Key assumptions in VIU calculation of CGUs are most sensitive to discount rates and growth rates used to project cash flows. Future cash flows and growth rates were based on experiences and strategies developed and prospects. The discount rate used for the computation of the net present value is the cost of equity and was determined by reference to comparable entities. In 2014, the post-tax discount rate applied to cash flow projections is 9.40% and the growth rate used to extrapolate cash flows beyond the five-year period is 3.00%.

Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the goodwill to materially exceed its recoverable amount.

4. Significant Accounting Judgments

The preparation of the financial statements requires the Group to make judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Following is the additional critical judgment applied in 2014 that has a risk of material adjustment to the carrying amounts of assets and liabilities:

Business model test
The Group manages its financial assets based on a business model that maintains adequate level of financial assets to match expected cash outflows while maintaining a strategic portfolio of financial assets for trading activities.

The Group's business model can be to hold financial assets to collect HTC contractual cash flows even when sales of certain financial assets occur. PFRS 9, however, emphasizes that if more than an infrequent number of sales are made out of a portfolio of financial assets carried at amortized cost, the entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows.

In making this judgment, the Group considers the circumstances surrounding the disposal as well as the requirements of BSP Circular No. 708, *Guidelines on the adoption of PFRS 9*.

In January 2015, the Parent Company participated in bond swap offer by the Republic of the Philippines. US dollar - denominated investment securities at amortized cost with a carrying amount of USD 86.59 million (₱3.8 billion) were swapped which resulted in a gain of USD 3.1 million (₱136.8 million). The Parent Company concluded that the participation is these government - initiated offerings does not violate its HTC business model policy (see note 8).

In February and March 2015, the Parent Company changed its business model for peso-denominated government securities portfolio from the collection of contractual cash flows to the realization of fair value changes (see Note 8).

5. Financial Risk Management

Compared with the December 31, 2014 audited financial statements, there have been no changes in the financial risk exposures that materially affect the financial statements of the Group as of September 30, 2015. The Group has exposures to the following risks from its use of financial instruments: (a) credit; (b) liquidity; and (c) market risks. Related discussions follow below, which should be read in conjunction with Note 5, *Financial Risk Management Objectives and Policies,* of the Group's 2014 audited financial statements.

Introduction
Integral to the Parent Company's value creation process is risk management. It therefore operates an integrated risk management system to address the risks it faces in its banking activities, including credit, market, liquidity and operational risks. Exposures across these risk areas are regularly identified, measured, controlled, monitored and reported to both Senior Management and the BOD.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. These risks are monitored through the Parent Company's strategic planning process.

Risk Management Structure
Board of Directors
The BOD directs the Parent Company's over-all risk management strategy. The risk management processes of the subsidiaries are the separate responsibilities of their respective BOD. The BOD performs an oversight function on the Parent Company's implementation of its risk policies through various committees that it has created, as follows:

Executive Committee
The Executive Committee approves credit risk limit for large exposures except for directors, officers, stockholders and related interests (DOSRI) loans which are approved by the BOD regardless of amount.

Loan Restructuring Committee
The Loan Restructuring Committee focuses on substandard or nonperforming loans (NPLs) and approves the remedial strategy and action plan for large exposures.

Audit Committee
The Audit Committee through Internal Audit provides the independent assessment of the over all effectiveness of, and compliance with the Parent Company's risk management policies and processes.

Risk Oversight Committee
The Risk Oversight Committee (ROC) reviews, approves, and ensures effective implementation of the risk management framework. It approves risk-related policies, oversees limits to discretionary authority that the BOD delegates to management, and evaluates the magnitude, distribution and direction of risks in the Parent Company.

The Parent Company's organizational structure includes the Risk Management Group (RMG), which is responsible for driving the following risk management processes of the Group:

- Independent assessment, measurement, monitoring and reporting of the Group's risk-taking activities; and
- Formulation, review and recommendation of risk related policies.

Nevertheless, the Group's risk management framework adopts the basic tenet that risks are owned by the respective business and process owners. Everyone in the organization is therefore expected to proactively manage the risks inherent to their respective area by complying with the Group's risk management framework, policies and standards.

The Parent Company and its subsidiaries manage their respective financial risks separately. The subsidiaries have their own risk management procedures but are structured similar to that of the Parent Company. To a certain extent, the respective risk management programs and objectives are the same across the Group.

<u>Risk Measurement and Reporting</u>
The Parent Company's risks are measured using various methods compliant with Basel III standards. The Parent Company also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks are primarily performed based on limits established by the Parent Company. These limits reflect the business strategy and market environment of the Parent Company as well as the level of risk that the Parent Company is willing to accept. In addition, the Parent Company monitors and measures the overall risk-bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

For all levels throughout the Parent Company, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information. These reports include aggregate credit exposure, credit metric forecasts, limit exceptions, Value-at-Risk (VaR), liquidity ratios and risk profile changes.

For credit risk, detailed reporting of risks per industry, customer and risk rating and cover takes place. Senior management assesses the appropriateness of allowance for credit losses on a yearly basis or as the need arises. The ROC and the heads of the concerned business units receive a comprehensive credit

risk report once every quarter which is designed to provide all the necessary information to assess and conclude on the credit risks of the Parent Company.

In the case of market risk, a monthly report is presented to the ROC on the utilization of market limits and liquidity, plus any other risk developments.

Information compiled from all the businesses is examined and processed in order to analyze, control and identify early risks. This information is presented and explained to the BOD, the ROC, and the head of each business unit.

Risk Mitigation

As part of its market risk management, the Parent Company uses derivatives and other instruments to manage exposures resulting from changes in interest rates and foreign currencies.

In accordance with the Parent Company's policy, the risk profile of the Parent Company is assessed before entering into hedge transactions, which are authorized by the appropriate committees. The effectiveness of hedges is assessed by the RMG. The effectiveness of all the hedge relationships is monitored by the RMG monthly. In situations of ineffectiveness, the Parent Company will enter into a new hedge relationship to mitigate risk on a continuous basis.

The Parent Company actively uses collateral to reduce its credit risks.

Excessive Risk Concentration

Concentrations arise when a number of counterparties are engaged in similar business activities or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Parent Company's performance to developments affecting a particular industry or geographic location.

The Parent Company manages concentration risks by setting exposure limits to borrowing groups, industries, and where appropriate, on products and facilities. These limits are reviewed as the need arises but at least annually.

In order to avoid excessive concentrations of risk, the Parent Company's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of risks are controlled and managed accordingly.

Credit Risk

Credit risk is the risk of loss resulting from the failure of a borrower or counterparty to perform its obligations during the life of the transaction. This includes risk of non-payment by borrowers or issuers, failed settlement of transactions and default on contracts.

The Parent Company drives credit risk management fundamentally via its Credit Policy Manual (CPM), the provisions of which are regularly reviewed and updated to reflect changing risk conditions. The CPM defines the principles and parameters governing credit activities, ensuring that each account's creditworthiness is thoroughly understood and regularly reviewed. Relationship Managers assume overall responsibility for the management of credit exposures while middle and back office functions are clearly defined to provide independent checks and balance to credit risk-taking activities. A system of approving and signing limits ensures adequate senior management involvement for bigger and more complex transactions. Large exposures of the Group are kept under rigorous review as these are subjected to stress testing and scenario analysis to assess the impact of changes in market conditions or key risk factors (examples are economic cycles, interest rate, liquidity conditions or other market movements) on its profile and earnings.

The risk management structure of policies, accountabilities and responsibilities, controls and senior management involvement is similarly in place for nonperforming assets.

Liquidity Risk
Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Liquidity risk arises because of the possibility that the Group might be unable to meet its payment obligations when they fall due under both normal and stress circumstances. Liquidity risk is monitored and managed using Maximum Cumulative Outflows (MCO) limits. A Contingency Funding Plan is likewise in place to ensure readiness for identified liquidity crisis situation.

The Parent Company's Asset and Liability Committee (ALCO) is directly responsible for market and liquidity risk exposures. ALCO regularly monitors the Parent Company's positions and sets the appropriate transfer pricing rate to effectively manage movements of funds across business activities.

Market Risk
Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices.

The Group classifies exposures to market risk into either trading or non-trading portfolios and manages those portfolios separately.

The Group manages its market risk exposures through various established structures, processes and measurement tools.

- To maximize two distinct activities, trading and customer support, the Parent Company has split these functions into two distinct Business Units, Treasury and Strategic Risk Taking Group. Treasury has been tasked with managing customer flows, liquidity, as well as interest rate risk in the banking book, while the Strategic Risk Taking Group handles all proprietary trading of the Bank. Both units are assigned risk limits by the ROC. The Risk Management Group performs daily monitoring of compliance with policies, procedures and risk limits and accordingly makes recommendations, where appropriate.
- The ALCO is the senior decision making body for the management of all market risks related to asset and liability management, and the trading and accrual books.
- VaR is the statistical model used by the Parent Company to measure the market risk of its trading portfolio, with the confidence level is set at 99%. Moreover, the Group uses various defeasance periods per product type based on their liquidity as approved by the ROC.

The market risk measurement models are subjected to periodic back testing to ensure validity of market assumptions used.

Other risk management tools utilized by the Parent Company follow:

- Management action trigger
- Position and duration limits, where appropriate
- Mark-to-market valuation
- VaR limits
- EAR limits

Additional risk monitoring tools were likewise adopted to better cope with the fluid market environment. This came mainly in the form of sensitivity analyses to pinpoint vulnerabilities in terms of profit or loss and capital erosion.

Interest rate risk
Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments. The Parent Company follows a prudent policy on managing its assets and liabilities so as to ensure that exposure to fluctuations in interest rates are kept within acceptable limits.

Interest rate risk exposures are reported via a repricing gap schedule. The repricing gap report highlights mismatches in the repricing tenors of assets and liabilities. Repricing gaps are calculated by distributing the statement of financial position accounts into time buckets based on the next repricing dates of individual items. The difference between the amount of the assets and the amount of the liabilities that will reprice within a particular time bucket constitutes a repricing gap.

<u>Market Risk in the Trading Book</u>
The Parent Company needs to measure VaR in order to have an idea on how the market value of an asset or of a portfolio of assets is likely to decrease over a certain time period as market factors randomly change.

VaR computation is actually a two-step process which involves calculation of the change in the Risk Factor then computing for the corresponding impact on profit or loss. The Risk Factor is defined as a variable that causes a change in the value of a financial instruments or a portfolio of financial instruments.

VaR Methodology
The Parent Company uses two different approaches - Variance-Covariance and Historical Simulation Method.

Variance-Covariance approach is based on the assumption that the market factors have a multivariate normal distribution. Using this assumption, the distribution of portfolio profits and losses is then also normal - normal in the sense that profits and losses follow the characteristics of the normal curve. Due to this assumption, it is possible to have an explicit formula for the quantile, since a relationship exists between standard deviation and confidence level, which will be used for the VaR computation.

Historical Simulation assumes that asset returns in the future will have the same distribution that they had in the past. It estimates VaR by reliving history, which involves using historical changes in market factors to construct a distribution of potential profits and losses, and then reading off the loss that is exceeded at a specified confidence level and period.

The Parent Company will use Historical Simulation in calculating the VaR of derivative instruments other than forwards and swaps. For linear instruments such as fixed income, forwards and swaps, the Variance-Covariance approach is used.

VaR Parameters
The Parent Company uses 99.00% confidence level which translates to 2.326 standard deviations. To give a better picture, a 99.00% VaR can be taken as the 10th lowest of 1,000 profit and loss observations.

Defeasance period is the length of time that it takes for the Parent Company to fully close its position on a specific product/portfolio. The length of defeasance period depends on the nature of the portfolio.

For most products traded by the Parent Company, the standard defeasance period used is 5 days. However, for Foreign Exchange portfolio, the Parent Company uses a 1-day defeasance period and for Peso HFT portfolio, the defeasance period varies depending on the amount of open position. For Dollar Fixed Income securities, the Parent Company uses 2 days for Philippine government bonds, 5 days for other approved sovereign government bonds and 30 days for corporate bonds.

For most products traded by the Parent Company, the standard defeasance period used is 5 days. However, for foreign exchange portfolio, the Parent Company uses a 1-day defeasance period and for Peso HFT portfolio, the defeasance period varies depending on the amount of open position. For dollar fixed income securities, the Parent Company uses 2 days for Philippine government bonds, 5 days for other approved sovereign government bonds and 30 days for corporate bonds.

The VaR figures are backtested against actual and hypothetical profit and loss of the trading book to validate the robustness of the VaR model. Likewise, to complement VaR measure, the Parent Company performs stress tests wherein the trading portfolios are valued under extreme market scenarios not covered by the confidence interval of the Parent Company's VaR model.

Since VaR is an integral part of the Parent Company's market risk management, VaR limits have been established annually for all financial trading activities and exposures are monitored daily against the VaR limits. These limits are based on the tolerable risk appetite of the Parent Company.

Equity price risk
Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of equity indices and the value of individual stocks.

<u>Market Risk in the Non-Trading Book</u>
The accrual book pertains to the assets and liabilities that make up the Parent Company's balance sheet. Such accrual positions are sensitive to changes in interest rates. The Parent Company monitors the exposure of non-trading assets and liabilities to fluctuations in interest rates by measuring the impact of interest rate movements on its interest income.

Earnings-at-Risk (EAR) or the sensitivity of the statement of income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at each statement of financial position date. This approach focuses on the impact in profit or loss of holding on to the gaps over a 1-year time frame.

To control the interest rate repricing risk in the banking books, the Parent Company sets a limit on the Earnings at Risk (EAR) measure.

The Parent Company recognizes, however, that this metric assumes a "business-as-usual" scenario and, therefore, do not show potential losses under a "stress" scenario. To address this limitation, the Parent Company performs regular stress testing to test its ability to cope with adverse changes in interest rates under different stress scenarios. This process involves applying one-time interest rate shocks of different magnitudes to the current repricing gap positions in the balance sheet.

Currency risk
Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Foreign currency-denominated deposits are generally used to fund the Parent Company's foreign currency-denominated loan and investment portfolio in the FCDU. Banks are required by the BSP to match the foreign currency-denominated liabilities with the foreign currency-denominated assets held under the FCDU books. In addition, the BSP requires a 30.00% liquidity reserve on all foreign currency liabilities held under the FCDU. As of September 30, 2015 and December 31, 2014, the Parent Company is in compliance with the said regulation.

The Group's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines.

6. Fair Value Measurement

The following show the fair values of the assets and liabilities of the Group:

	September 30, 2015 (Unaudited)				
		Fair Value			
	Carrying Value	Total	Quoted Prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets Measured at Fair Value					
Financial assets at FVTPL:					
HFT investments:					
Government securities	**₱3,607,128**	**₱3,607,128**	**₱3,607,128**	**₱–**	**₱–**
Private bonds	**197,228**	**197,228**	**197,228**	–	–
Equity securities	**418,599**	**418,599**	**418,599**	–	–
Total HFT investments	**4,222,955**	**4,222,955**	**4,222,955**	–	–
Derivative assets:				–	–
Interest rate swaps	**1,147,393**	**1,147,393**	–	**1,147,393**	–
Currency forwards	**801,138**	**801,138**	–	**801,138**	–
Cross-currency swaps	**589**	**589**	–	**589**	–
Bond forward	**584**	**584**		**584**	
Total derivative assets	**1,949,704**	**1,949,704**	–	**1,949,704**	–
Others	**18,450**	**18,450**	**18,450**	–	–
Total financial assets at FVTPL	**6,191,109**	**6,191,109**	**4,241,405**	**1,949,704**	–
Financial assets at FVTOCI	**155,893**	**155,893**	**155,893**	–	–
	₱6,347,002	**₱6,347,002**	**₱4,397,298**	**₱1,949,704**	**₱–**
Assets for which Fair Values are Disclosed					
Financial Assets					
Financial assets at amortized cost					
Investment securities at amortized cost:					
Treasury bonds	**₱163,689,341**	**₱159,272,705**	**₱159,272,705**	**₱–**	**₱–**
Private bonds	**12,784,655**	**13,028,090**	**13,028,090**	–	–
Total investment securities at amortized cost	**176,473,996**	**172,300,795**	**172,300,795**	–	–
Loans and receivables - net	**216,914,977**	**221,067,138**	–	**221,067,138**	–
Other assets	**2,651,234**	**2,642,306**	–	**2,642,306**	–
Total financial assets at amortized cost	**396,040,207**	**396,010,239**	**172,300,795**	**223,709,444**	–
Non-financial Assets					
Investment properties	**1,797,686**	**3,453,196**	–	–	**3,453,196**
	₱397,837,893	**₱399,463,435**	**₱172,300,795**	**₱223,709,444**	**₱3,453,196**
Liabilities Measured at Fair Value					
Financial liabilities at FVTPL:					
Derivative liabilities:					
Currency forwards	**₱234,460**	**₱234,460**	**₱–**	**₱234,460**	**₱–**
Interest rate swaps	**1,140,831**	**1,140,831**	–	**1,140,831**	–
Bond forward	**283**	**283**	–	**283**	–
Warrants	**2,950**	**2,950**	–	**2,950**	–
Total financial liabilities at FVTPL	**1,378,524**	**1,378,524**	–	**1,378,524**	–
Derivative liabilities designated as hedges	**22,775**	**22,775**	–	**22,775**	–
	₱1,401,299	**₱1,401,299**	**₱–**	**₱1,401,299**	**₱–**
Liabilities for which Fair Values are Disclosed					
Deposit liabilities excluding LTNCD	**₱265,109,997**	**₱266,695,155**	**₱–**	**₱266,695,155**	**₱–**
LTNCD	**9,959,752**	**9,988,598**	–	**9,988,598**	–
Subordinated Note	**9,937,542**	**9,890,423**	–	**9,890,423**	–
Notes Payable	**13,964,330**	**14,426,056**	–	**14,426,056**	–
Bills payable and SSURA	**116,355,692**	**115,434,483**	–	**115,434,483**	–
	₱415,327,313	**₱416,434,715**	**₱–**	**₱416,434,715**	**₱–**

	December 31, 2014 (Audited)				
		Fair Value			
	Carrying Value	Total	Quoted Prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets Measured at Fair Value					
Financial assets at FVTPL:					
HFT investments:					
Government securities	₱9,420,510	₱9,420,510	₱9,420,510	₱–	₱–
Private bonds	81,377	81,377	81,377	–	–
Equity securities	649,108	649,108	649,108	–	–
Total HFT investments	10,150,995	10,150,995	10,150,995	–	–
Derivative assets:					
Currency forwards	308,036	308,036	–	308,036	–
Interest rate swaps	443,299	443,299	–	443,299	–
Currency options	4,329	4,329	–	4,329	–
Cross-currency swaps	46	46	–	46	–
Total derivative assets	755,710	755,710	–	755,710	–
Others	15,117	15,117	–	15,117	–
Total financial assets at FVTPL	10,921,822	10,921,822	10,150,995	770,827	–
Financial assets at FVTOCI	150,780	150,780	150,780	–	–
	₱11,072,602	₱11,072,602	₱10,301,775	₱770,827	₱–
Assets for which Fair Values are Disclosed					
Financial Assets					
Financial assets at amortized cost					
Investment securities at amortized cost:					
Treasury bonds	₱60,557,383	₱63,661,842	₱63,661,842	₱–	₱–
Treasury notes and bills	29,395,421	32,487,547	32,487,547	–	–
Private bonds	11,532,039	11,417,389	11,417,389	–	–
Total investment securities at amortized cost	101,484,843	107,566,778	107,566,778	–	–
Loans and receivables - net	194,004,086	206,099,335	–	–	206,099,335
Other assets	1,112,982	1,110,272	–	–	1,110,272
Total financial assets at amortized cost	296,601,911	314,776,385	107,566,778	–	207,209,607
Non-financial Assets					
Investment properties	1,780,886	3,343,179	–	–	3,343,179
	₱298,382,797	₱318,119,564	₱107,566,778	₱–	₱210,552,786
Liabilities Measured at Fair Value					
Financial liabilities at FVTPL:					
Derivative liabilities:					
Currency forwards	₱119,205	₱119,205	₱–	₱119,205	₱–
Interest rate swaps	460,600	460,600	–	460,600	–
Currency options	2,822	2,822	–	2,822	–
Cross-currency swaps	240	240	–	240	–
Total financial liabilities at FVTPL	582,867	582,867	–	582,867	–
Derivative liabilities designated as hedges	58,288	58,288	–	58,288	–
	₱641,155	₱641,155	₱–	₱641,155	₱–
Liabilities for which Fair Values are Disclosed					
Deposit liabilities excluding LTNCD	₱236,860,364	₱239,281,300	₱–	₱239,281,300	₱–
LTNCD	9,952,430	11,193,355	–	11,193,355	–
Subordinated Note	9,933,491	11,747,466	–	11,747,466	–
Bills payable and SSURA	79,601,534	78,200,908	–	78,200,908	–
	₱336,347,819	₱340,423,029	₱–	₱340,423,029	₱–

During the periods ended September 30, 2015 and December 31, 2014, there were no transfers between level 1 and level 2 fair value measurements and no transfers into and out of level 3 fair value measurement.

The Group measures certain financial instruments at fair value at each reporting period. Also, fair values of financial instruments carried at amortized cost and investment properties carried at cost are measured for disclosure purposes.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

External appraisers are involved for valuation of significant nonfinancial assets, such as investment properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

The methods and assumptions used by the Group in estimating the fair value of the its assets and liabilities are:

COCI, due from BSP and other banks and interbank loans receivable and SPURA with the BSP
The carrying amounts approximate fair values considering that these accounts consist mostly of overnight deposits and floating rate placements.

Debt securities
Fair values are generally based upon quoted market prices, if available. If the market prices are not readily available, fair values are estimated using either values obtained from independent parties offering pricing services or adjusted quoted market prices of comparable investments or using the discounted cash flow methodology.

Equity securities
Fair values of quoted equity securities are based on quoted market prices. The unquoted equity securities are carried at cost net of impairment since there is insufficient information available to determine its fair values.

Receivable from customers and Sales contracts receivable (included under Other receivables)
Fair values of loans and receivables are estimated using the discounted cash flow methodology, using the Group's current incremental lending rates for similar types of loans and receivables.

Significant unobservable inputs	Range (weighted average)
Credit spread	1.00% - 4.00%

Other receivables - Accounts receivable
Carrying amounts approximate fair values given their short-term nature.

Investment properties
Fair value of investment properties are determined by independent or in-house appraisers using the market data approach. Valuations were derived on the basis of recent sales of similar properties in the same area as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made and comparability of similar properties sold with the property being valued. Significant unobservable inputs in determining fair values include the following:

Location	Location of comparative properties whether on a main road, or secondary road. Road width could also be a consideration if data is available. As a rule, properties located along a main road are superior to properties located along a secondary road.
Size	Size of lot in terms of area. Evaluate if the lot size of property or comparable conforms to the average cut of the lots in the area and estimate the impact of the lot size differences on land value.
Time element	An adjustment for market conditions is made if general property values have appreciated or depreciated since the transaction dates due to inflation or deflation or a change in investor's perceptions of the market over time, in which case, the current data is superior to historic data.
Discount	Generally, asking prices in advertisements posted for sale are negotiable. Discount is the amount the seller or developer is willing to deduct from the posted selling price if the transaction will be in cash or equivalent.

Other financial assets
The carrying amounts approximate fair values due to their short-term nature.

Derivative instruments
Fair values of quoted warrants are based on quoted market prices. Other derivative products are valued using valuation techniques using market observable inputs including foreign exchange rates and interest

rate curves prevailing at the statement of financial position date. For interest rate swaps, cross-currency swaps and foreign exchange contracts, discounted cash flow model is applied. This valuation model discounts each cashflow of the derivatives at a rate that is dependent on the tenor of the cashflow. European currency options are valued using the Garman-Kohlhagen model which estimates the value of the option with the assumption that the risk-free rate paid on a foreign currency is a continuous dividend yield. European bond options are valued using the Black 76 model which incorporates in its formula the price variation of the underlying bond, the time value of money, the option's strike price and the time to the option's expiry.

Deposit liabilities (demand and savings deposits excluding long-term savings deposits)
The carrying amounts approximate fair values considering that these are due and demandable.

Long-term savings deposits, time deposits, Long-term negotiable certificates of deposit (LTNCD), notes payable, bills payable and SSURA, and subordinated note
Fair values of time deposits, LTNCD, notes payable, bills payable and SSURA, and subordinated note are estimated using the discounted cash flow methodology using the Group's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued.

Other financial liabilities
For accrued interest and other expenses and other financial liabilities, the carrying amounts approximate fair values due to their short-term nature.

7. Financial Assets and Liabilities at Fair Value through Profit or Loss

As of September 30, 2015 and December 31, 2014, Financial assets at FVTPL include net unrealized gain of ₱1.8 billion and ₱716.1 million, respectively. Net unrealized gain or loss on financial assets at FVTPL (other than currency forwards) is included in Trading and securities gain (loss) in the statements of income. For the nine months ended September 30, 2015 and 2014, fair value changes of ₱377.8 million gain and ₱304.0 million gain, respectively, on currency forwards is included in Foreign exchange gain (loss) in the statements of income.

8. Investment Securities at Amortized Cost

This account consists of investments in:

	September 30, 2015 (Unaudited)	December 31, 2014 (Audited)
Treasury bonds	**₱163,689,341**	₱60,557,383
Private bonds	**12,784,655**	11,532,039
Treasury notes and bills	**–**	29,395,421
	₱176,473,996	₱101,484,843

In January 2014, as part of the general cash management program and broader program to manage its external liabilities, the Republic of the Philippines executed a cash tender offer. Under the cash tender offer, the government offered selected US dollar-denominated securities for buyback. The Parent Company submitted its holdings of eligible bonds that resulted in the derecognition of certain HTC securities. US dollar-denominated investment securities at amortized cost with carrying amount of USD 1.3 million (₱57.4 million) were tendered which resulted in a gain of USD 6,907 (₱0.3 million). The Parent Company concluded that the participation in these government-initiated offerings does not

violate its HTC business model as it is not driven by the realization of fair value gains, as supported by the following:

- The main motivation of the Parent Company in participating is to protect itself from the possible adverse impact on the liquidity of the eligible securities. There is high likelihood that the securities will become illiquid after the offerings.
- The securities submitted for the offerings were purchased by the Parent Company prior to the announcement by the government of the securities eligible for the offerings.
- Fair value does not play a role in the selection of the securities to be tendered as the government provided a list of eligible securities for the offerings.
- The participation in the offerings was not anticipated as the offerings are not frequent exercises of the government.

On February 25, 2014, the Parent Company's Board of Directors approved the alignment of SBS with the overall strategic direction of the Parent Company through the acquisition of certain assets and assumption of certain liabilities of the Savings Bank by the Parent Company for a consideration. The move was to achieve structural alignment to better take advantage of changing market conditions and customer needs and understand new emerging markets, product portfolios and address customer needs.

On May 22, 2014, the Monetary Board of the BSP approved the adoption of a prudential Real Estate Stress Test (REST) limit for universal/commercial banks and thrift banks on a solo and consolidated basis on their aggregate real estate exposures, as provided under BSP Circular No. 839, *Real Estate Stress Test Limit for Real Estate Exposures*, dated June 27, 2014. The REST limit combines a macroprudential overlay of a severe stress test scenario, the principle of loss absorbency through minimum capital ratio thresholds and heightened supervisory response.

In line with the Group's capital management policy and in response to the effect of the above requirements to the Group and Parent Company's CET I ratio considering the Group's targeted growth and the Parent Company's acquisition of SBS' assets and liabilities, the Parent Company decided to increase its CET I capital level through the disposal of certain securities under the HTC business model with carrying amount of USD1.5 million (₱65.0 billion) from June to September 2014. The disposal resulted in an increase in CET I capital of ₱3.1 billion. The Parent Company concluded that the disposal does not violate its HTC business model since it is attributable to a significant increase in regulatory capital requirements that caused the Parent Company to downsize by selling securities under the amortized cost category and is attributable to an isolated event that is beyond the Parent Company's control, is non-recurring and could not have been reasonably anticipated.

In January 2015, the Parent Company participated in bond swap offer by the Republic of the Philippines. US dollar - denominated investment securities at amortized cost with a carrying amount of USD 86.59 million (₱3.8 billion) were swapped which resulted in a gain of USD 3.1 million (₱136.8 million). The Parent Company concluded that the participation is these government - initiated offerings does not violate its HTC business model policy.

In February and March 2015, the Parent Company disposed certain peso-denominated government securities classified as HTC with a carrying amount of ₱32.8 billion. The disposals resulted in a trading gain of ₱1.9 billion and constitute a change in its business model from HTC portfolio to realization of fair value changes. As a result, the Parent Company reclassified at the beginning of the second quarter the remaining securities in the portfolio with carrying amount of ₱13.8 billion and fair value as of reclassification date of ₱14.7 billion to financial assets at FVTPL, and all future investments in peso-denominated government securities will be classified as at FVTPL.

As of September 30, 2015 and December 31, 2014, HTC dollar-denominated bonds amounted to ₱172.2 billion and ₱56.0 billion, respectively.

As of September 30, 2015 and December 31, 2014, HTC Peso-denominated securities amounted to ₱4.3 billion and ₱45.5 billion, respectively.

Certain investment securities were pledged with foreign and local banks as collateral for SSURA. The following are the carrying values of the investment securities pledged and transferred under SSURA transactions of the Group:

Amounts in thousands

	September 30, 2015 (Unaudited)		December 31, 2014 (Audited)	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Investment securities at amortized cost				
Treasury bonds	**₱91,763,392**	**₱88,452,340**	₱45,680,287	₱47,491,206
Private bonds	**235,489**	**234,413**	7,463,208	7,321,727
	₱91,998,881	**₱88,686,753**	₱53,143,495	₱54,812,933

In addition, as of September 30, 2015 and December 31, 2014, government securities included under 'Investment securities at amortized cost' with a total face value of nil and ₱425.19 million, respectively, were deposited with the BSP in compliance with the requirements of the General Banking Law relative to the Parent Company's trust functions.

9. Deposit Liabilities

BSP Circular 753 which took effect on April 6, 2012, promulgated the unification of the statutory and liquidity reserve requirements on non-FCDU deposit liabilities of the Parent Company from 21.00% to 18.00%. On the other hand, non-FCDU deposit liabilities of SBS are subject to required reserves equivalent to 6.00%. As mandated by the Circular, only demand deposit accounts maintained by banks with the BSP are eligible for compliance with reserve requirements, thereby excluding government securities and cash in vault as eligible reserves. Further, deposits maintained with the BSP in compliance with the reserve requirement shall no longer be paid interest. As of September 30, 2015 and December 31, 2014, the Group was in compliance with such regulations.

As reported to the BSP, the Group has set aside due from BSP as reserves amounting ₱34.1 billion and ₱35.4 billion as of September 30, 2015 and December 31, 2014, respectively, while the Parent Company has set aside due from BSP as reserves amounting to ₱33.6 billion and ₱34.7 billion as of September 30, 2015 and December 31, 2014, respectively.

<u>Long Term Negotiable Certificate of Deposits due 2017 (LTNCD Series 1)</u>
On February 17, 2012, the Parent Company issued 5.50% fixed coupon rate (EIR of 5.62%) unsecured LTNCD at par value of ₱5.0 billion. LTNCD Series 1 matures on February 17, 2019.

<u>Long Term Negotiable Certificate of Deposits due 2017 (LTNCD Series 2)</u>
On August 15, 2012, the Parent Company issued 5.50% fixed coupon rate (EIR of 5.62%) unsecured LTNCD at par value of ₱5.0 billion. LTNCD Series 2 matures on August 16, 2019.

The Parent Company incurred debt issue costs amounting to ₱36.1 million and ₱34.9 million on the LTNCD Series 1 and 2, respectively. The movement of unamortized debt issue costs follows:

	September 30, 2015 (Unaudited)	December 31, 2014 (Audited)
Beginning balance	**₱47,570**	₱56,887
Amortization	**(7,322)**	(9,317)
Balance at end of year	**₱40,248**	₱47,570

Interest expense on deposit liabilities consists of:

	For nine months ended September 30	
	2015	2014
	(Unaudited)	
Demand	**₱116,974**	₱102,419
Savings	**975,756**	671,397
Time	**829,593**	606,320
LTNCD	**419,821**	419,418
	₱2,342,144	₱1,799,554

10. Notes Payable

Senior Unsecured Notes due 2020
In February, 2015, the Parent Company issued $300 million senior unsecured notes ("Senior Notes") due on February 3, 2020. The Senior Notes were priced at par with a coupon rate of 3.95% payable on a semi-annual basis commencing on August 3, 2015.

The Parent Company incurred debt issue costs amounting to ₱61.0 million. Amortization of debt issue costs for the nine months ended September 30, 2015 amounted to ₱7.0 million.

Interest expense for the notes payable amounted to ₱360.1 million for the nine months ended September 30, 2015.

11. Subordinated Note

Tier 2 Unsecured Subordinated Notes due 2024
On July 11, 2014, the Parent Company issued ₱10.0 billion Unsecured Subordinated Notes (2024 Sub Notes) due on July 11, 2024 qualifying as Tier 2 Capital. The Notes will initially bear interest at the rate of 5.375% per annum (EIR of 5.464%) from and including July 11, 2014 to but excluding July 11, 2019. Unless the 2024 Sub Notes are redeemed on July 12, 2019, the initial interest rate will be reset at the equivalent of the five-year PDST-R1 plus a spread of 1.575% per annum, and such interest will be payable commencing on July 12, 2019 up to and including July 11, 2024. The interest of the 2024 Sub Notes for the entire term will be payable quarterly in arrears on the 11th of January, April, July, and October of each year, commencing on October 11, 2014.

The issuance of the 2024 Sub Notes under the terms approved by the BOD was approved by the BSP on May 21, 2014, subject to the Parent Company's compliance with certain conditions.

The movements in unamortized discount follow:

	September 30, 2015 (Unaudited)	December 31, 2014 (Audited)
Beginning balance	**₱66,509**	₱–
Discount on issuance of 2024 Sub Notes	**–**	68,992
Amortization	**(4,051)**	(2,483)
Balance at end of year	**₱62,458**	₱66,509

Interest expense for the subordinated notes amounted to ₱408.7 million for the nine months ended September 30, 2015.

12. Equity

This account consists of (amounts in thousands, except par value and number of shares):

	Shares		Amount	
	September 30, 2015	December 31, 2014	**September 30, 2015**	December 31, 2014
Common stock - ₱10 par value				
Authorized	**1,000,000,000**	1,000,000,000	**₱10,000,000**	₱10,000,000
Issued and outstanding				
Balance at beginning of year	**602,831,109**	502,358,513	**6,028,311**	5,023,585
20% stock dividend	–	100,472,596	–	1,004,726
	602,831,109	602,831,109	**6,028,311**	6,028,311
Preferred stock- ₱0.10 par value				
Authorized	**1,000,000,000**	1,000,000,000	**100,000**	100,000
Issued and outstanding				
Balance at beginning of year	602,831,109	–	60,283	–
Issuance of preferred shares	–	602,831,109	–	60,283
	602,831,109	602,831,109	**60,283**	60,283
	1,205,662,218	1,205,662,218	**₱6,088,594**	₱6,088,594

Details of the Parent Company's cash dividend distribution follow:

		Dividend				
Shares	Date of declaration	Per share	Total amounts in thousands	Date of BSP approval	Record date	Payment date
Common	March 24, 2015	₱1.00	₱602,831	May 19, 2015	June 3, 2015	June 30, 2015
Preferred	March 24, 2015	0.0039	2,351	May 19, 2015	June 26, 2015	July 10, 2015
Common	August 19, 2014	1.00	602,831	September 30, 2014	October 15, 2014	November 10, 2014
Common	March 25, 2014	1.00	602,831	April 22, 2014	May 7, 2014	June 2, 2014

The Parent Company's BOD, in its meeting held on September 29, 2015, approved the declaration of cash dividend of ₱1.00 per share. The record date and payment date shall be fixed upon receipt of BSP's approval.

SLC's Board of Directors, in its meeting held on February 18, 2015, approved the declaration of cash dividend of ₱2.50 per share to all stockholders of record as of December 31, 2014. Cash dividends pertaining to non-controlling interest amounted to ₱23.5 million.

The computation of surplus available for dividend declaration in accordance with SEC Memorandum Circular No. 11 issued in December 2008 differs to a certain extent from the computation following BSP guidelines. The amount declared as dividends is the amount approved by the BSP.

To comply with Securities Regulation Code Rule 49.1 (B), *Reserve Fund*, requiring broker dealers to annually appropriate certain minimum percentage of its audited profit after tax as reserve fund, a portion of the Group's surplus corresponding to the net earnings of SBEI amounting to ₱27.2 million as of September 30, 2015 and December 31, 2014 has been appropriated in the consolidated financial statements and is not available for dividend declaration.

Capital Management

The Group considers the equity attributable to the equity holders of the Parent Company as the capital base of the Group. The primary objectives of the Group's capital management are to ensure that it complies with externally imposed capital requirements and that it maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities and assessment of prospective business requirements or directions. In order to maintain or adjust the capital structure, the Group may adjust the

amount and mode of dividend payment to shareholders, issue capital securities or undertake a share buy-back. The processes and policies guiding the determination of the sufficiency of capital for the Group relative to its business risks are the very same methodology that have been incorporated into the Group's

Internal Capital Adequacy Assessment Process (ICAAP) in compliance with the requirements of BSP Circular No. 639 for its adoption. Under this framework, the assessment of risks extends beyond the Pillar 1 set of credit, market and operational risks and onto other risks deemed material by the Group. The level and structure of capital are assessed and determined in light of the Group's business environment, plans, performance, risks and budget; as well as regulatory edicts. BSP requires submission of an ICAAP document every January 31. In 2014, while the Group has created additional triggers for its CET I capital, on top of its 2013 ICAAP, to its capital management process, no changes were made in the objectives and policies from previous years.

Regulatory Qualifying Capital

Under existing BSP regulations, the determination of the Parent Company's compliance with regulatory requirements and ratios is based on the amount of the Parent Company's 'unimpaired capital' (regulatory net worth) reported to the BSP, which is determined on the basis of regulatory policies. In addition, the risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.00% for both solo basis (head office and branches) and consolidated basis (parent company and subsidiaries engaged in financial allied undertakings). Qualifying capital and risk-weighted assets are computed based on BSP regulations.

The regulatory Gross Qualifying Capital of the Parent Company consists of Tier 1 (core) and Tier 2 (supplementary) capital. Tier 1 capital comprises share capital, retained earnings (including current year profit) and minority interest less required deductions such as deferred tax and unsecured credit accommodations to DOSRI. Tier 2 capital includes unsecured subordinated note, revaluation reserves and general loan loss provision. Certain items are deducted from the regulatory Gross Qualifying Capital, such as but not limited to equity investments in unconsolidated subsidiary banks and other financial allied undertakings, but excluding investments in debt capital instruments of unconsolidated subsidiary banks (for solo basis) and equity investments in subsidiary nonfinancial allied undertakings.

Risk-weighted assets are determined by assigning defined risk weights to statement of financial position exposures and to the credit equivalent amounts of off-balance sheet exposures. Certain items are deducted from risk-weighted assets, such as the excess of general loan loss provision over the amount permitted to be included in Tier 2 capital. The risk weights vary from 0% to 100.00% depending on the type of exposure, with the risk weights of off-balance sheet exposures being subjected further to credit conversion factors. Below is a summary of risk weights and selected exposure types:

Risk weight	Exposure/Asset type*
0%	Cash on hand; claims collateralized by securities issued by the non-government, BSP; loans covered by the Trade and Investment Development Corporation of the Philippines; real estate mortgages covered by the Home Guarantee Corporation
20%	COCI, claims guaranteed by Philippine incorporated banks/quasi-banks with the highest credit quality; claims guaranteed by foreign incorporated banks with the highest credit quality; loans to exporters to the extent guaranteed by Small Business Guarantee and Finance Corporation
50%	Housing loans fully secured by first mortgage on residential property; Local Government Unit (LGU) bonds which are covered by Deed of Assignment of Internal Revenue allotment of the LGU and guaranteed by the LGU Guarantee Corporation
75%	Direct loans of defined Small Medium Enterprise and microfinance loans portfolio; nonperforming housing loans fully secured by first mortgage
100%	All other assets (e.g., real estate assets) excluding those deducted from capital (e.g.,

	deferred tax)
125%	All NPLs (except nonperforming housing loans fully secured by first mortgage) and all nonperforming debt securities

With respect to off-balance sheet exposures, the exposure amount is multiplied by a credit conversion factor (CCF), ranging from 0.00% to 100.00%, to arrive at the credit equivalent amount, before the risk weight factor is multiplied to arrive at the risk-weighted exposure. Direct credit substitutes (e.g., guarantees) have a CCF of 100.00%, while items not involving credit risk has a CCF of 0.00%.

In the case of derivatives, the credit equivalent amount (against which the risk weight factor is multiplied to arrive at the risk-weighted exposure) is generally the sum of the current credit exposure or replacement cost (the positive fair value or zero if the fair value is negative or zero) and an estimate of the potential future credit exposure or add-on. The add-on ranges from 0.00% to 1.50% (interest rate-related) and from 1.00% to 7.50% (exchange rate-related), depending on the residual maturity of the contract. For CLNs and similar instruments, the risk-weighted exposure is the higher of the exposure based on the risk weight of the issuer's collateral or the reference entity or entities.

As of September 30, 2015 and December 31, 2014, the Group was in compliance with the required capital adequacy ratio (CAR).

The CAR of the Group as reported to the BSP follows:

	September 30, 2015	December 31, 2014
Tier 1 capital	**₱52,222,759**	₱46,661,789
Less Required deductions	**4,424,683**	4,058,796
	47,798,076	42,602,993
Excess from Tier 2 deducted to Tier 1 Capital*	**–**	–
Net Tier 1 Capital	**47,798,076**	42,602,993
Tier 2 capital	**12,314,273**	12,310,295
Less: Required deductions	**–**	–
	12,314,273	12,310,295
Excess of Tier 2 deducted to Tier 1 Capital*	**–**	–
Net Tier 2 Capital	**12,314,273**	12,310,295
Total Qualifying Capital	**₱60,112,349**	₱54,913,288
Risk Weighted Assets	**₱377,330,113**	₱298,773,098
Tier 1 CAR	**12.67%**	14.26%
Total CAR	**15.93%**	18.38%

**Deductions to Tier 2 Capital are capped at its total gross amount and any excess shall be deducted from Tier 1 Capital.*

On January 15, 2013, the BSP issued Circular No. 781, Basel III Implementing Guidelines on Minimum Capital Requirements, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. The circular is effective on January 1, 2014.

The Circular sets out a minimum Common Equity Tier 1 (CET1) ratio of 6.0% and Tier 1 capital ratio of 7.5%. It also introduces a capital conservation buffer of 2.5% comprised of CET1 capital. The BSP's existing requirement for Total CAR remains unchanged at 10% and these ratios shall be maintained at all times.

Further, existing capital instruments as of December 31, 2010 which do not meet the eligibility criteria for capital instruments under the revised capital framework shall no longer be recognized as capital upon the effectivity of Basel III. Capital instruments issued under BSP Circular Nos.709 and 716 (the

circulars amending the definition of qualifying capital particularly on Hybrid Tier 1 and Lower Tier 2 capitals), starting January 1, 2011 and before the effectivity of BSP Circular No. 781, shall be recognized as qualifying capital until December 31, 2015. In addition to changes in minimum capital requirements, this Circular also requires various regulatory adjustments in the calculation of qualifying capital.

On June 27, 2014, the BSP issued Circular No. 839, Real Estate Stress Test (REST) Limit for Real Estate Exposures which provides the implementing guidelines on the prudential REST limit for universal, commercial, and thrift banks on their aggregate real estate exposures. The Circular sets out a minimum REST limit of 6.0% CET1 capital ratio and 10% risk-based capital adequacy ratio, on a solo and consolidated basis, under a prescribed write-off rate of 25% on the Group's real estate exposure. These limits shall be complied with at all times.

One June 9, 2015, the BSP issued Circular No. 881, Basel III Leverage Ratio Framework which provides implementing guidelines for universal, commercial, and their subsidiary banks/quasi banks. The circular sets out a minimum Leverage Ratio of 5.0% on a solo and consolidated basis and shall be complied with at all times.

The Group has taken into consideration the impact of the foregoing requirements to ensure that the appropriate level and quality of capital are maintained on an ongoing basis.

13. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Group's related parties include:

- key management personnel, close family members of key management personnel and entities which are controlled, significantly influenced by or for which significant voting power is held by key management personnel or their close family members,
- subsidiaries, joint ventures and associates and their respective subsidiaries, and
- post-employment benefit plans for the benefit of the Group's employees.

The Group has several business relationships with related parties. Transactions with such parties are made in the ordinary course of business and on substantially same terms, including interest and collateral, as those prevailing at the time for comparable transactions with other parties. These transactions also did not involve more than the normal risk of collectability or present other unfavorable conditions.

In the ordinary course of business, the Parent Company has loan transactions with subsidiaries and with certain DOSRI. Under the Parent Company's policies, these loans are made substantially on the same terms as loans to other individuals and businesses of comparable risks.

On January 31, 2007, BSP Circular No. 560 was issued providing the rules and regulations that shall govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. Under the said circular, the total outstanding loans, credit accommodations and guarantees to each of the bank's subsidiaries and affiliates shall not exceed 10.00% of the bank's net worth, the unsecured portion shall not exceed 5.00% of such net worth. Further, the total outstanding exposures shall not exceed 20.00% of the net worth of the lending bank. The said Circular became effective on February 15, 2007.

BSP Circular No. 423, dated March 15, 2004 amended the definition of DOSRI accounts. Further, BSP issued Circular No. 464 dated January 4, 2005 clarifying the definition of DOSRI accounts.

Other related party transactions conducted in the normal course of business includes the following, as detailed in the Memorandum of Agreement (MOA) between the Parent Company and its subsidiaries:

- Human resource-related services
- Finance/accounting functions including audit
- Collection services (for legal action)
- Preparation of reports
- Processing of credit application (for property appraisal and credit information)
- General services
- Legal documentation
- Information technology related service

The Parent Company has lease agreements with some of its subsidiaries for periods ranging from 1 to 5 years. The lease agreements include the share of the subsidiaries in the maintenance of the building.

Transactions of the Parent Company with its subsidiaries were eliminated in the consolidated financial statements of the Group.

For the periods ended September 30, 2015 and 2014, SBML sold various lease and loans receivables to the Parent Company. Also, for the periods ended September 30, 2014, SBML sold various lease and loans receivables to SBS. The Parent Company's share in the gain on sale of lease receivables was eliminated in the consolidated financial statements of the Group.

The Group has transactions with its key management personnel or those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. The Group considers senior officers to constitute key management personnel.

Under PFRS, certain post-employment benefit plans are considered as related parties. The Group has business relationships with a number of its retirement plans pursuant to which it provides trust and management services to these plans. The Group's retirement funds may hold or trade the Parent Company's shares or securities. Significant transactions of the retirement fund, particularly with related parties, are approved by the Trust Investment Committee. Voting rights over the Parent Company's shares are exercised by an authorized trust officer.

On February 25, 2014, the BOD of the Parent Company approved the strategic plan for SBS to fully align with the overall strategic direction of the Parent Company and the acquisition of certain assets and assumption of certain liabilities of SBS by the Parent Company, subject to regulatory approvals.

On January 8, 2015, the BSP approved the purchase of all assets and assumption of all liabilities of SBS by the Parent Company. On January 14, 2015, the BSP further clarified that SBS will not become a shell corporation after the integration because it will retain cash to meet its capital requirement as a thrift bank, and after one year of dormancy, shall go back to the BSP for consideration to resume its banking operations. On its letter dated January 29, 2015, the PDIC also granted the consent to the proposed sale of all assets and assumption of all liabilities of SBS to the Parent Company under the Resolution No. 2014-12-290 dated December 19, 2014.

As of March 31, 2015, acquisition of assets and liabilities of SBS has been fully implemented. SBS has recognized a gain on sale of its net assets amounting to ₱2.4 million, which was eliminated in the consolidated financial statements.

14. Commitments and Contingent Liabilities

The following is a summary of the Group's commitments and contingent liabilities at their equivalent peso contractual amounts (amounts in thousands):

	September 30, 2015	December 31, 2014
Committed loan line	**₱47,185,113**	₱30,096,631
Trust department accounts	**40,348,223**	35,706,263
Unused commercial letters of credit	**19,866,998**	20,344,355
Unutilized credit limit of credit cardholders	**12,988,894**	10,450,280
Outstanding guarantees	**6,326,223**	6,762,593
Inward bills for collection	**1,243,201**	1,424,932
Late deposit/payment received	**280,698**	454,785
Outward bills for collection	**145,266**	188,580
Others	**127,335**	64,644

In the normal course of operations of the Group, there are outstanding commitments and contingent liabilities and bank guarantees that are not reflected in the financial statements. The Group does not anticipate losses that will materially affect its financial position and financial performance as a result of these transactions.

There are several suits and claims that remain unsettled. Management believes, based on the opinion of its legal counsels, that the ultimate outcome of such cases and claims will not have a material effect on the Group's financial position and financial performance.

15. Financial Performance

The following basic ratios measure the financial performance of the Group and the Parent Company:

	For the Period Ended September 30	
	2015	2014
Return on average equity	**16.11%**	19.90%
Return on average assets	**1.88**	2.29
Net interest margin	**3.20**	3.40

Basic earnings per share amounts were computed as follows:

	For the Period Ended September 30	
	2015	2014
a. Net income attributable to the equity holders of the Parent Company	**₱6,057,404**	₱6,428,498
b. Dividends declared to Preferred Shares	**2,351**	–
c. Weighted average number of outstanding common shares*	**602,831,109**	602,831,109
d. Earnings per share* [(a-b)/c]	**₱10.04**	₱10.66

**in absolute amounts*

As of September 30, 2015 and 2014, the Parent Company has no potentially dilutive common shares.

16. Segment Information

The Group's operating businesses are recognized and managed separately according to the nature of services provided and the different markets served with each segment representing a strategic business unit. In 2014, the Group underwent changes in the structure of its internal organization in a manner that caused the composition of its reportable segments to change. Formerly part of the *Commercial and Retail Banking Segment* in the old structure, the Banking Centers Group was incorporated into the former *Corporate and Investment Banking Segment* to create the new Wholesale Banking Segment. The Wholesale Banking Segment was consolidated to provide better and more dedicated service to the Corporate and Commercial clients of the Bank. The Retail Banking Segment will focus on providing Better Banking to individual and retail clients.

Accordingly, the corresponding segment information for all prior periods presented herein are restated to reflect such change. Based on management's assessment, the Group now derives revenues from the following main operating business segments:

Financial Markets Segment - this segment focuses on providing money market, foreign exchange, financial derivatives, securities distribution, asset management, trust and fiduciary services, as well as the management of the funding operations for the Group.

Wholesale Banking Segment - this segment addresses the large corporates, institutional, public sector, middle, and small and medium enterprise markets. Services include relationship management, lending and other credit facilities, trade, cash management and deposit-taking services provided by the Group. It also provides structured financing and advisory services relating to debt and equity capital raising, project financings, and mergers and acquisitions. The Group's equity brokerage operations are also part of this segment.

Retail Banking Segment - this segment addresses the individual and retail markets. It covers deposit-taking and servicing, consumer loans and credit card facilities.

All Other Segments - this segment includes but not limited to remittances, leasing, transaction banking and other support services. Other operations of the Group comprise the operations and financial control groups.

No operating segments have been aggregated to form the above reportable operating business segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on net income after taxes, which is measured in a manner consistent with PFRS as shown in the statements of income.

Segment assets are those operating assets that are employed by a segment in its operating activities and that either directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Segment liabilities are those operating liabilities that result from the operating activities of a segment and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

The Group's revenue-producing assets are located in the Philippines (i.e., one geographical location), therefore, geographical segment information is no longer presented.

The Group has no significant customers which contribute 10.00% or more of the consolidated revenue, net of interest expense.

The segment results include internal transfer pricing adjustments across business units as deemed appropriate by management. Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is charged/credited to the business units based on a pool rate which approximates the marginal cost of funds.

Segment information follows (amounts in millions):

	For the Period Ended September 30, 2015 (Unaudited)				
	Financial Markets	Wholesale Banking	Retail Banking	All Other Segments	Total
Statement of Income					
Net interest income					
Third Party	**₱3,640**	**₱5,899**	**(₱167)**	**(₱324)**	**₱9,048**
Intersegment	**(628)**	**(3,091)**	**2,590**	**1,129**	**–**
	3,012	**2,808**	**2,423**	**805**	**9,048**
Noninterest income	**3,528**	**840**	**939**	**(13)**	**5,294**
Revenue - net of interest expense	**6,540**	**3,648**	**3,362**	**792**	**14,342**
Noninterest expense	**805**	**1,833**	**4,184**	**744**	**7,566**
Income before income tax	**5,735**	**1,815**	**(822)**	**48**	**6,776**
Provision for (benefit from) income tax	**172**	**277**	**(26)**	**253**	**676**
Minority Interest in net income of subsidiaries	**–**	**–**	**–**	**43**	**43**
Net income for the period	**₱5,563**	**₱1,538**	**(₱796)**	**(₱248)**	**₱6,057**
Other Segment Information					
Capital Expenditures	**₱7**	**₱49**	**₱354**	**₱235**	**₱645**
Depreciation and amortization	**₱5**	**₱34**	**₱244**	**₱162**	**₱445**
Provision for credit and impairment losses	**₱–**	**₱308**	**₱352**	**(₱61)**	**₱599**

	For the Period Ended September 30, 2014 (Unaudited)				
	Financial Markets	Wholesale Banking	Retail Banking	All Other Segments	Total
Statement of Income					
Net interest income					
Third Party	₱3,416	₱5,290	₱(144)	₱(103)	₱8,459
Intersegment	(599)	(2,646)	2,348	897	–
	2,817	2,644	2,204	794	8,459
Noninterest income	3,664	749	727	(52)	5,088
Revenue - net of interest expense	6,481	3,393	2,931	742	13,547
Noninterest expense	500	1,600	3,469	913	6,482
Income before income tax	5,981	1,793	(538)	(171)	7,065
Provision for (benefit from) income tax	324	290	(60)	40	594
Minority Interest in net	–	–	–	43	43
Net income for the period	₱5,657	₱1,503	(₱478)	(₱254)	₱6,428

(Forward)

	For the Period Ended September 30, 2014 (Unaudited)				
	Financial Markets	Wholesale Banking	Retail Banking	All Other Segments	Total
Other Segment Information					
Capital Expenditures	₱10	₱28	₱442	₱263	₱743
Depreciation and amortization	₱5	₱14	₱221	₱131	₱371
Provision for credit and impairment losses	₱–	₱283	₱114	₱371	₱768

	For the Quarter Ended September 30, 2015 (Unaudited)				
	Financial Markets	Wholesale Banking	Retail Banking	All Other Segments	Total
Statement of Income					
Net interest income					
Third Party	**₱1,320**	**₱2,067**	**(₱42)**	**(₱107)**	**₱3,238**
Intersegment	**(230)**	**(1,064)**	**902**	**392**	**–**
	1,090	**1,003**	**860**	**285**	**3,238**
Noninterest income	**349**	**231**	**275**	**14**	**869**
Revenue - net of interest expense	**1,439**	**1,234**	**1,135**	**299**	**4,107**
Noninterest expense	**163**	**605**	**1,414**	**209**	**2,391**
Income before income tax	**1,276**	**629**	**(279)**	**90**	**1,716**
Provision for (benefit from) income tax	**99**	**105**	**27**	**65**	**296**
Minority Interest in net income of subsidiaries	**–**	**–**	**–**	**20**	**20**
Net income for the period	**₱1,177**	**₱524**	**(₱306)**	**₱5**	**₱1,400**
Other Segment Information					
Capital Expenditures	**₱1**	**₱21**	**₱115**	**₱89**	**₱226**
Depreciation and amortization	**₱1**	**₱15**	**₱83**	**₱64**	**₱163**
Provision for credit and impairment losses	**₱–**	**₱103**	**₱124**	**(₱20)**	**₱207**

	For the Quarter Ended September 30, 2014 (Unaudited)				
	Financial Markets	Wholesale Banking	Retail Banking	All Other Segments	Total
Statement of Income					
Net interest income					
Third Party	₱968	₱1,843	(₱39)	(₱118)	₱2,654
Intersegment	(211)	(939)	800	350	–
	757	904	761	232	2,654
Noninterest income	2,015	215	231	15	2,476
Revenue - net of interest expense	2,772	1,119	992	247	5,130
Noninterest expense	131	540	1,227	161	2,059
Income before income tax	2,641	579	(235)	86	3,071

(Forward)

	For the Quarter Ended September 30, 2014 (Unaudited)				
	Financial Markets	**Wholesale Banking**	**Retail Banking**	**All Other Segments**	**Total**
Provision for (benefit from) income tax	215	87	(22)	(40)	240
Minority Interest in net	–	–	–	17	17
Net income for the period	₱2,426	₱492	(₱213)	₱109	₱2,814
Other Segment Information					
Capital Expenditures	₱4	₱21	₱233	₱145	₱403
Depreciation and amortization	₱1	₱5	₱78	₱48	₱132
Provision for credit and impairment losses	₱–	₱86	₱59	(₱65)	₱80

Statement of Financial Position as of September 30, 2015

Total assets	**₱221,675**	**₱215,292**	**₱29,599**	**₱15,613**	**₱482,179**
Total liabilities	**₱109,013**	**₱116,675**	**₱183,168**	**₱19,858**	**₱428,714**

Statement of Financial Position as of December 31 , 2014

Total assets	₱173,656	₱191,577	₱25,300	₱6,665	₱397,198
Total liabilities	₱83,036	₱101,441	₱155,908	₱8,856	₱349,241

The Group’s share in net income (loss) of a joint venture is included under All Other Segments.

SECURITY BANK CORPORATION AND SUBSIDIARIES
AGING OF LOANS AND RECEIVABLES
AS OF SEPTEMBER 30, 2015
(In thousands)

Type of Loan	Current	90 days or less	91 to 180 days	181 days to 1 year	More than1 year	Total
Loans and Receivables	₱218,619,902	₱605,736	₱180,136	₱207,448	₱1,248,737	₱220,861,959
Less: Allowance for Probable Losses						₱3,946,982
TOTAL						₱216,914,977

Annex 8

SECURITY BANK CORPORATION AND SUBSIDIARIES

AGING OF ACCOUNTS RECEIVABLE
AS OF SEPTEMBER 30, 2015
(In thousands)

	Total	1 – 6months	7 mos. to 2 years	3 – 5 years	5 years and above	Past due accounts & Items in litigation
Type of Accounts Receivable						
a) Trade Receivables						
1) Interbank Loans Receivable	₱–	₱–	₱–	₱–	₱–	₱–
2) Loans	216,434,793	97,872,869	67,699,738	45,160,761	3,514,086	2,187,339
3) Accounts Receivable	487,233	306,689	116,628	36,776	–	27,140
4) Accrued Interest Receivable	3,658,427	3,434,467	136,203	60,275	–	27,482
Sub-total	220,580,453	101,614,025	67,952,569	45,257,812	3,514,086	2,241,961
Less: Allowance for Doubtful Accounts	3,902,190					
Net Trade Receivable (a)	216,678,263	101,614,025	67,952,569	45,257,812	3,514,086	2,241,961
b) Non-Trade Receivables						
1) Accounts Receivable	281,506	263,032	7,386	6,737	4,255	96
2) Accrued Interest Receivable	–	–	–	–	–	–
Sub-total	281,506	263,032	7,386	6,737	4,255	96
Less: Allowance for Doubtful Accounts	44,792					
Net Non-Trade Receivable (b)	236,714	263,032	7,386	6,737	4,255	96
Net Receivables (a+b)	**₱216,914,977**					

Notes: * If the Company's collection period does not match with the above schedule and revision is necessary to make the schedule not misleading, the proposed collection period in this schedule may be changed to appropriately reflect the Company's actual collection period.

* Accounts Receivable Description:

Type of Receivable	Nature / Description
1)	not applicable

Notes: Indicate a brief description of the nature and collection period of each receivable accounts with major balances or separate receivable captions, both for trade and non-trade accounts.

Normal operating cycle : Calendar Year

FINANCIAL SOUNDNESS INDICATORS

(amounts in millions of Philippine pesos except for ratios)

		September 30, 2015	December 31, 2014
LIQUIDITY (%)			
Liquid to total assets	Liquid Assets*	253,452.60	193,150.39
	Total Assets	482,179.39	397,198.33
** including investment securities at amortized cost*		**52.56**	**48.63**
Loans (net) to Deposit Ratio	Loans & Receivables, net	216,914.98	194,004.09
	Total Deposits	275,069.75	246,812.79
		78.86	**78.60**
SOLVENCY RATIOS			
Debt-to-equity ratio	Total Debt	428,713.68	349,241.29
	Total Equity Attributable to Parent Company	52,370.06	46,881.29
		8.19	**7.45**
Asset-to-equity ratio	Total Assets	482,179.39	397,198.33
	Total Equity Attributable to Parent Company	52,370.06	46,881.29
		9.21	**8.47**

		September 30, 2015	September 30, 2014
Interest rate coverage ratio	Earnings Before Interest and Taxes (EBIT)	11,099.03	10,074.20
	Interest Expense	4,322.22	3,008.36
		2.57	**3.35**

ASSET QUALITY (%)		September 30, 2015	December 31, 2014
Non-performing loans ratio	Non-performing Loans (net of specific allowance)	667.02	530.72
	Gross Loans	216,425.59	191,201.61
		0.31	**0.28**

Non-performing loan (NPL) cover	Allowance for Probable Losses	3,883.57	3,690.59
	Non-performing Loans (gross of specific allowance)	2,173.05	1,841.12
		178.71	**200.45**
PROFITABILITY (%)		**September 30, 2015**	**September 30, 2014**
Return on assets	Annualized Net Income Attributable to Parent Company	8,076.54	8,571.33
	Average Total Assets for the Period	429,956.16	374,661.17
		1.88	**2.29**
Return on equity	Annualized Net Income Attributable to Parent Company, net of dividends declared to Preferred Shares	8,073.40	8,571.33
	Average Total Equity Attributable to Parent Company for the Period	50,100.46	43,081.92
		16.11	**19.90**
Net interest margin	Annualized Net Interest Income	12,064.32	11,279.14
	Average Interest Earning Assets for the Period	377,462.42	331,809.55
		3.20	**3.40**
Cost to income ratio	Total Operating Expenses before Provision and Impairment Losses	6,966.46	5,714.24
	Total Operating Income	14,342.44	13,547.83
		48.57	**42.18**

Annex 10

Item 2. Management's Discussion and Detailed Analysis of Financial Condition and Results of Operations

Key Performance Indicators

The Bank monitors its performance and benchmarks itself with the other players in the banking industry in terms of the following indicators:

Key Performance Indicators:	September 2015	December 2014
Capital Adequacy		
Capital to Risk Assets Ratio	15.93%	18.38%
Asset Quality		
Non-performing Loan (NPL) Ratio	0.31%	0.28%
Non-performing Loan (NPL) Cover	178.71%	200.45%
Liquidity		
Liquid Assets to Total Assets	52.56%	48.63%

Key Performance Indicators:	YTD September 2015	YTD September 2014
Profitability		
Return on Average Equity	16.11%	19.90%
Net Interest Margin	3.20%	3.40%

The manner by which the Bank calculates the above indicators is as follows:

Key Performance Indicator	Formula
Capital to Risk Assets Ratio	BSP prescribed formula: Total Qualifying Capital Market, Credit and Operational Risk Weighted Exposures
Non-performing Loan (NPL) Ratio	Non-performing Loans (net of specific allowance) Gross Loans
Non-performing Loan (NPL) Cover	Allowance for Probable Losses Loans Non-performing Loans (gross of specific allowance)
Liquid Assets to Total Assets	Total Liquid Assets Total Assets
Return on Average Equity	Annualized Net Income Attributable to Parent Company, net of dividends declared to Preferred Shares Average Total Equity Attributable to Parent Company for the Period
Net Interest Margin	Annualized Net Interest Income Average Interest Earning Assets for the Period

Analysis of Consolidated Statements of Financial Position as of September 30, 2015 (unaudited) and December 31, 2014 (audited)

Total Assets grew from P397.2 billion to P482.2 billion with increases seen in Financial Assets at Fair Value through Other Comprehensive Income, Investment Securities at Amortized Cost, Loans and Receivables, Investment in a Joint Venture, Property and Equipment, Investment Properties, Intangible Assets, and Other Assets. These were tempered by decreases seen in Cash & Other Cash Items, Due from BSP, Due from Other Banks, Financial Assets at Fair Value through Profit or Loss and Deferred Tax Assets.

Cash and Other Cash Items went down by 20.3% or P1.1 billion due to the Group's daily operations and asset-liability management. **Due from BSP** went down by 3.2% to P34.7 billion due to increased levels of placements and working balances with the BSP. **Due from Other Banks** declined by 19.6% or P7.7 billion as counterparty bank placements decreased. **Interbank Loans Receivable and Securities Purchased under Resale Agreements with the Bangko Sentral ng Pilipinas** remained at zero.

Financial Assets at Fair Value through Profit or Loss decreased to P6.2 billion or by 43.3% from P10.9 billion at year-end due to the sale of held-for-trading securities during the period. **Financial Assets at Fair Value through Other Comprehensive Income** increased by 3.4% to P155.9 million from December 2014's P150.8 million due to increase in market valuation of securities held. **Investment Securities at Amortized Cost** went up by 73.9% or P75.0 billion as the Bank built up its portfolio after selling the dollar portfolio in 2014 to increase capital position in view of the implementation of the Real Estate Stress Test (REST) of the Bangko Sentral ng Pilipinas, net of the HTC peso government securities sold in February and March 2015.

Loans and Receivables grew to P216.9 billion as of September 2015 from P194.0 billion as of December 2014.

Investment in a Joint Venture grew by 7.5% or P14.7 million while **Property and Equipment** increased by 6.9% or P167.1 million. **Investment Properties** went up by 0.9% or P16.8 million. **Deferred Tax Assets** decreased to P977.7 million or by 2.2% versus P1.0 billion at year-end 2014 level as the Group realized a temporary difference during the period. Furthermore, **Intangible Assets** went up by P38.2 million or 2.5% on account of upgrades in the current application systems of the Group.

Other Assets jumped by 67.5% to P3.9 billion owing to increase in cash collaterals related to the Bank's trading activities and higher prepaid expenses.

Total Liabilities went up to P428.7 billion from P349.2 billion with increases seen in Deposit Liabilities, Financial Liabilities at Fair Value through Profit or Loss, Bills Payable, Acceptances Payable, Margin Deposits and Cash Letters of Credit, Manager's and Certified Checks Outstanding, Income Tax Payable, Subordinated Note, Notes Payable, and Accrued Interest, Taxes and Other Expenses. These were offset by decreases in Derivative Liabilities Designated as Hedges and Other Liabilities.

Deposit Liabilities grew to P275.1 billion as against P246.8 billion level as of December 31, 2014. **Financial Liabilities at Fair Value through Profit or Loss** jumped by 136.5% to P1.4 billion from P582.9 million recorded at year-end 2014 on account of increase in derivative liabilities during the period. **Derivative Liabilities Designated as Hedges** declined to P22.8 million or by 60.9% due to pretermination of certain hedged loans. **Bills Payable and Securities Sold Under Repurchase Agreements** increased by 46.2% or P36.8 billion as the Bank increased its borrowings used to fund assets. **Acceptances Payable** increased by 8.4% to P319.1 million while **Margin Deposits and Cash Letters of Credit** expanded by 403.0% to P165.9 million and **Manager's and Certified Checks Outstanding** grew by 52.3% to P3.3 billion due to higher transaction volumes.

Income Tax Payable went up to P63.2 million from December 2014's P47.0 million on account of income tax accrual during the period. **Subordinated Note** increased by P4.1 million or 0.04% while **Notes Payable** grew to P14.0 billion from zero at end-2014 with the issuance of the SBC USD Notes in February 2015. **Accrued Interest, Taxes and Other Expenses** increased by 10.2% to P2.4 billion from end-of-year 2014 level due to the increase in volume of loans and deposits resulting in a higher accrual of interest, taxes and other expenses during the period. **Other Liabilities** dropped by 23.6% or P1.8 billion on account of decline in outstanding checks awaiting clearing.

Total Equity grew to P53.5 billion from year-end 2014's P48.0 billion on account of net income during the period. **Surplus** was up by 14.8% to P42.4 billion on account of net income during the first three quarters net of cash dividends declared and paid. **Surplus Reserves** dropped by P17.8 million or 3.7%. **Net Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income of the Parent and Subsidiaries** grew by P4.9 million on account increase in market valuation of securities held.

Cumulative Foreign Currency Translation increased by 28.8% due to downward trend of US$/Peso exchange rate.

The **Capital Adequacy Ratio (CAR-Basel III)** decreased to 15.93% as of September 2015 from 18.38% as of December 2014 due to increase in risk-weighted assets. This is well above BSP minimum requirement of 10% and international standard of 8%, indicative of the sufficiency of the Bank's capital to support the current level of its risk assets.

Analysis of Consolidated Statements of Income (unaudited) For the Periods Ended September 30, 2015 and September 30, 2014

Net Income

Net income attributable to the Bank's equity holders amounted to P6.1 billion for the period ended September 30, 2015, showing a decline of 5.8% from September 2014's P6.4 billion. The decline is due to the increase in Total Operating Expenses by 16.7% or P1.1 billion versus the period ended September 30, 2014, partly tempered by growth in Operating Income by P794.6 million to P14.3 billion or 5.9% growth from last year's P13.5 billion.

Interest Income

Interest Income ended higher than prior year by 16.6% or by P1.9 billion on account of significant improvement in financial investments and loan-related activities during the period. The **Interest on Financial Investments** expanded by 18.0% to P5.3 billion this year due to a higher level of financial investments compared to the same period last year. Meanwhile **Interest on Loans and Receivables** grew by 18.2% to P8.0 billion given the significantly bigger loan portfolio compared with the same period last year. **Interest on Interbank Loans Receivable** dropped to P7.7 million due to a lower volume of placements for the period while **Deposits with Banks and Others** declined to P41.3 million.

Interest Expense

Interest Expense accelerated by 43.7% to P4.3 billion due to higher interest expense on deposits, unsecured subordinated debt, bills payable and securities sold under repurchase agreements and other borrowings, and derivative instruments, partially offset by decrease in interest expense on derivatives designated as hedges. **Interest on Deposit Liabilities** grew by 30.1% or P542.6 million due to significant increase in deposits on a period-on-period basis. **Interest on Unsecured Subordinated Debt, Bills Payable and Securities Sold Under Repurchase Agreements and Other Borrowings**

increased to P1.3 billion or by 109.2% due to the issuance of USD Notes in February 2015 and significant increase in bills payable on a period-on-period basis. **Interest on Derivative Instruments** went up by 21.7% while **Interest on Derivatives Designated as Hedges** went down by 45.3% as a result of fluctuations in benchmark interest rates of Interest Rate Swaps.

Other Income

Other Income increased by 4.0% to P5.3 billion for the period ended September 2015 due to surges in Trading Gain, Service Charges, Fees and Commissions, Foreign Exchange Gain, Rental Income and Miscellaneous Income. The growth in these line items was offset by the decrease in Share in Net Income (Loss) of a Joint Venture, Profits from Assets Sold/Exchanged and Trading Gain on Investments at Amortized Cost.

Trading and Securities Gain booked 70.5% higher income of P825.3 million compared to P484.0 million in the same period last year, while **Trading Gain on Investments at Amortized Cost** dropped by 32.6% or P1.0 billion in the same period last year. **Service Charges, Fees and Commissions** likewise increased by 51.4% or P550.4 million from first nine months of 2014 on account of higher revenues earned from FWD and other fee-based activities. **Foreign Exchange Gain** improved from P17.5 million loss in the period ended September 2014 to P189.3 million gain in 2015. **Profit from Assets Sold/Exchanged** decreased by 14.2% or P16.9 million during the period on account of lower gains on disposal and foreclosure of Investment Properties while **Rent Income** increased by P27.8 million or 27.1%. The decrease in **Share of Net Income of a Joint Venture** by P3.1 million was attributed to decline in the Bank's share in the net income of SBM Leasing, Inc.

Operating Expenses

Operating expenses (excluding provisions for credit and impairment losses) were higher at P7.0 billion, up 21.9% over the same period last year. The significant increases in **Compensation and Fringe Benefits**, **Taxes and Licenses**, **Occupancy Costs**, **Depreciation and Amortization** and **Miscellaneous Expenses** by 20.5%, 36.6%, 12.4%, 19.9% and 21.5%, respectively, are mainly attributable to business expansion activities. **Provision for Credit Losses** dropped by P185.3 million or 23.6%, while **Impairment Loss** for the period ended September 30, 2015 is at P0.1 million.

Provision for Income Tax

Provision for Income Tax amounted to P676.1 million for the period ended September 30, 2015, P81.7 million or 13.7% higher than the P594.4 million reported in previous year due to higher taxable base during the period.

Liquidity

The Group's liquidity is more than adequate with liquid assets to total assets ratio of 52.56% as of September 30, 2015. The Group does not anticipate any cash flow or liquidity problems within the next twelve (12) months, and is not in default or breach of any note, loan, lease or other indebtedness or financing arrangement requiring it to make payments. All payables have been paid by the Group within the stated terms. There are no known trends, demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the Group's liquidity increasing or decreasing in any material way.

Commitments and Contingent Liabilities

The Group has outstanding commitments, contingent liabilities, bank guarantees and tax assessments that arose from the normal course of operations. The Group does not anticipate losses that will materially affect its financial position and results of operations as a result of these transactions.

Material Commitments for Capital Expenditures

The Group has commitments for capital expenditures covering the investments to upgrade and expand electronic systems including expansion of electronic banking channels and ATM installations, investments for renovation or relocation or branch premises, and investments for new branches. These will be funded out of cash flows from operations.

Material Impact on Income from Continuing Operations

In the normal course of operations, the Group's activities are affected by changes in interest rates, foreign currency exchange rates and other market changes. The Group follows a prudent policy on managing its assets and liabilities to ensure that exposure to fluctuations in interest rates and foreign currency exchange rates are kept within acceptable limits and within regulatory guidelines.

Significant Elements of Income or Loss that did not arise from Continuing Operations

There are no significant elements of income or loss that did not arise from continuing operations of the Group.

Seasonal aspects that have a material effect on the financial condition or results of operations.

The Group's financial position or results of operations are not affected by seasonal aspects.